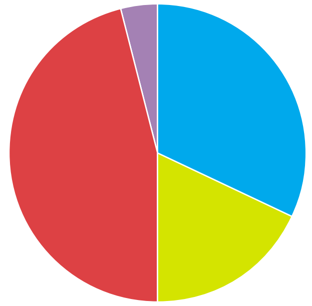
a winning experience…

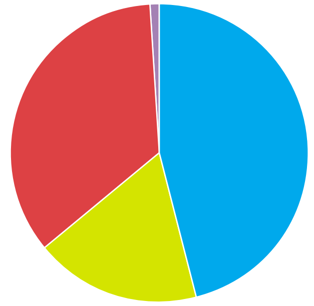
…providing entertainment

Rank Group



Turnover by division %

Gaming · Deluxe · Hard Rock · Other



Operating profit by division %

Gaming · Deluxe · Hard Rock · Other

Financial Highlights

- Earnings per share* up 30% to 22.5p
- Profit before tax* of £188.1m (2000 – £186.0m)
- Gaming profit up 16%*, with businesses well positioned to take advantage of Gambling Review
- Hard Rock profit of £38.0m, adversely affected by 11 September, but development plans proceed unchanged
- Deluxe profit* ahead of last year, with Film profit up 11%
- Net cash flow before acquisitions and disposals of £29.6m
- Net debt down to £248.1m (2000 – £319.9m)
- Dividend up 5% to 12.6p (2000 – 12.0p)

*before exceptional items

Contents

The Rank Group Plc

Business Structure

Three major divisions, market leading positions…

Other

US Holidays
US Holidays comprises timeshare operations, campgrounds and a hotel.

Universal Studios – Hotels
Rank has a 25% equity interest in three hotels at Universal Studios Escape, Orlando, Florida – Portofino Bay Hotel, Hard Rock Hotel and Royal Pacific Resort Hotel.

Universal Studios, Japan
Rank has a 10% equity interest. Theme park opened 2001.

British Land joint venture
Joint venture with The British Land Company PLC.

Gaming

Managing Director
David Boden

Turnover
£437.1m

Operating profit
£95.7m

www.meccabingo.com
www.grosvenor-casinos.co.uk
www.rank.com
www.gamblingreview.co.uk

Operations

Mecca Bingo
124 clubs in the UK and 7 in Spain

Grosvenor Casinos
5 in London, 27 UK provincial and 2 in Belgium

Hard Rock Casinos
2 Hard Rock Casinos to open in 2002 – London and Manchester

E-gaming
New e-gaming site www.rank.com launched November 2001

Rank Leisure Machine Services
Operates 36,000 amusement machines in UK leisure venues

Stafferton Way, Maidenhead, Berks SL6 1AY
Tel: 01628 504000

Hard Rock

Managing Director
Pete Beaudrault

Turnover
£248.4m

Operating profit
£38.0m

www.hardrock.com
www.hardrockcasino.com

Operations

Hard Rock Cafes
57 owned
51 franchised

Hard Rock Hotels and Casinos
Hotels in Orlando, Bali and Thailand
2 resort casinos and hotel developments planned in Florida, an agreement with the Seminole Indian Nation

Hard Rock Live!
Concert arenas in Orlando, Mexico City, Bali and Guadalajara

Merchandise
Variety of branded merchandise available at all cafes and via the website

6100 Old Park Lane, Orlando, Florida 32835, US
Tel: 001 407 445 7625

Deluxe

Managing Directors

Cyril Drabinsky	Deluxe Laboratories
Peter Pacitti	Deluxe Video Services and DVD

Turnover
£634.6m

Operating profit
£74.1m

www.bydeluxe.com

Operations

Deluxe Film Laboratories
4 laboratories in Canada, US, UK and Italy
Processed 4bn feet of film in 2001
New laboratories in Toronto and Rome opened 2001

Deluxe Video Services
Duplication in Arkansas, US
Distribution from Chicago, US
Duplication and distribution facilities in Europe
Duplicated 250m video cassettes in 2001

Deluxe DVD
6.6m DVDs replicated in US in 2001
90m DVDs distributed in 2001

Deluxe Laboratories
1377 North Serrano Avenue, Hollywood, CA 90027, US
Tel: 001 323 462 6171

Deluxe Video Services
555 Heuhl Road, Northbrook, IL 60062, US
Tel: 001 847 291 1150

Deluxe DVD
1041 E 230th Street, Carson, CA 90745, US
Tel: 001 310 518 0710

Chairman's Statement

"…real opportunities for growth. I look forward to 2002 with confidence".

As this is my first Annual Report for The Rank Group Plc, I would like to start by saying how very pleased I am to have joined the Board as non-executive Chairman. It is an exciting period for our Company as the leisure and gaming markets are changing dramatically and Rank is very well placed to take advantage of the real growth opportunities as they emerge.

My first task after joining the Group was to visit the Divisions and find out how our businesses operate. This was a useful and informative series of trips and I am delighted to say how very impressed I was with the high standard of management and staff employed around the Group. Their dedication and commitment is tangible and, on behalf of the Board, I would like to thank everyone for their contribution.

I would also like to acknowledge the exceptional achievements of the current management team, who have transformed the Group in a relatively short period of time. Rank is now more focused after the disposal of several businesses, margins and profitability have improved significantly and, very importantly, the Group again generated positive free cash flow – that is, after capital expenditure, dividends, interest and tax. The sentiment towards the Group is greatly improved and the Company's reputation with city analysts and shareholders continues to strengthen.

I would like to pay tribute to Sir Denys Henderson, who retired as Chairman at the 2001 annual general meeting, and thank him for his contribution to the Group. I would also like to thank the other members of the Board who departed last year – Jerry Fowden, Hugh Jenkins and Christine Morin-Postel. The reduced number of remaining members of the Board has obviously meant that greater demands have been placed on each of them and their continued support is very much appreciated.

Rank is in a strong financial position, has an excellent team of employees at all levels, and real opportunities for growth. I look forward to 2002 with confidence.

Alun Cathcart Chairman

2001 has been a year of success across the Group marked by a reinvigoration of trading performance and a corresponding improvement in financial results. Rank is now well placed to move forward in areas with significant potential for future growth thereby ensuring enhanced value for our shareholders…

Our business is the entertainment of customers whether through our companies that cater for customers directly, through the franchisees of our brands, or through the provision of services that ultimately lead to entertainment

Chief Executive's Statement

"The 2001 results reaffirm our belief that our declared strategy for the Group is effective …"

2001 was a good year for the Rank Group. The all round strength of the Group is now such that we were able to bear the impact of poorer trading conditions in the latter part of the year and still deliver improved financial results. We achieved growth in earnings per share before exceptional items of 30% and recorded positive cash flow so that net borrowings fell by £71.8m to £248.1m.

The Gaming Division had a very strong trading performance within both its casino and bingo activities. We had previously demonstrated margin and cost control and in the second half we added significantly improved turnover. Casino turnover in the second half rose by 12% and bingo by 5%. This improvement is attributable for the most part to customer appreciation of the investment we have made in better facilities, although in bingo we also launched a number of customer promotions to encourage attendance.

Hard Rock experienced a year with two distinct parts; the period up to 11 September in which sales and profits were improved, followed by the period since then when, as we previously reported, results have been little better than break-even as customers, particularly tourists, limited their excursions. We had already been reducing overhead costs and promoting local business prior to September and these actions helped us to weather the storm. Subsequently, customer demand has been steadily improving.

Deluxe had a robust year. Film processing was again strong with record levels of production. The additional laboratory in Rome made a contribution but will really make its planned impact in 2002. A new Toronto laboratory was partially opened to help meet very heavy demand towards the end of the year. Video had a generally satisfactory year with a resilient performance in North America. The results in European video however did not meet expectations and we undertook a restructuring and reorganisation which in part gives greater synergy between our US and European businesses. Our DVD business, whilst improved, is still not making a positive contribution.

The 2001 results reaffirm our belief that our declared strategy for the Group is effective and we will continue to invest accordingly.

Within Gaming we will accelerate our proven formula of relocation of existing licences combined with new developments and acquisitions. We have now won two new casino licences (Manchester and London) which will open in 2002, branded Hard Rock, and which will be aimed at younger customers. We have purchased two bingo clubs in the UK and there is scope for controlled expansion of our successful bingo business in Spain. The Gambling Review recommended a number of liberalising changes and whilst for the most part the changes require new UK legislation, which could take up to three years to enact, they would then facilitate considerable profitable expansion of our business.

The Rank.com website was launched in the latter part of 2001 with games aimed at our existing UK customers. We will add more products during the first half of 2002, including some designed to meet the requirements of international customers serviced through our recently acquired Isle of Man licence. The new products will in part incorporate the Hard Rock brand.

We believe that the reinvigorated Hard Rock business model has proved itself to be robust, despite the difficulties since September, and accordingly we will continue to expand in 2002. We plan to open 10 cafes in the UK and continental Europe. Many of these will cater for local customers with less reliance on tourists, thereby following the successful formula established in Manchester and Birmingham. There will also be further cafe development in the US and by franchisees. Given the success of the Hard Rock hotel in Florida we are actively seeking more branded hotel opportunities.

In Deluxe we will complete and fully open the new Toronto film laboratory early in 2002 which will add to production efficiency and flexibility. We will continue to rationalise and seek consolidation opportunities within video, particularly in Europe. We seek to improve our position in DVD.

No mainstream Deluxe contracts expire during 2002 but we have started a programme for the early extension of both film and video contracts. Our objective is to increase the average contracted length of time outstanding by at least two years. We have already made significant progress in this regard.

Our operational strengths are bolstered by firm financial management. Sensible tax planning has enabled us to reduce the effective tax rate. In 2001 we settled with the Inland Revenue at no cash cost the outstanding tax issues arising from the Rank Xerox transactions in 1995 and 1997. I am also pleased to confirm that the valuation of the Group's pension plan has disclosed a significant surplus.

We said at the beginning of 2001 that with our renewed confidence we would increasingly concentrate on development and growth. The results are a demonstration of the progress made and a further reinforcement of our belief that Rank will continue to move forward in 2002 and beyond.

2002 has started well, displaying the same improving trends shown in the second half of 2001, and financial results to date are in line with our expectations.

Mike Smith Chief Executive

Key Facts

1 Grosvenor Casinos is the UK market leader	**10** new Hard Rock cafes planned in Europe	**22** EPS of 22.5p, up 30% on last year	**30** Hard Rock Cafe opened in London 30 years ago	**40** Mecca Bingo celebrated its 40th birthday in 2001			**71** £m operating profit achieved by Mecca Bingo in 2001
	12 12.6p final dividend, up 5% on last year		**36** 36,000 amusement machines operated by RLMS	**43** % increase in handle per head at relocated Grosvenor Casinos		**63** million DVDs were distributed by Deluxe in the US in 2001	
4 billion feet of film processed by Deluxe Film Laboratories		**24** million visits to Mecca Bingo clubs in 2001			**57** Hard Rock cafes are owned by the Group	**68** £m net cash inflow generated by the Group in 2001	**75** % increase in European film capacity now the Rome lab is open

ENTERTAINMENT!

Mecca Bingo is one of the UK's **leading bingo operators** and Rank's most profitable business.

Mecca Bingo celebrated its **40th birthday** in 2001 – with millions of people playing bingo every year, it is one of the UK's leading leisure pastimes.

Mecca Bingo launched a very successful promotional campaign in 2001, which included selected **TV advertising** and free bingo sessions.

Spend per head in Mecca Bingo clubs increased by 11% to £9.45.

In 2001, **two new UK bingo clubs** were acquired – Wakefield and Rotherham.

Mecca Bingo continued its expansion in **Spain** with the recent acquisition of a new club in Barcelona.

Gaming Division – Mecca Bingo
Operating Profit £m

Gaming – Mecca Bingo

Another record year for Mecca Bingo with operating profit up 23%.

Turnover	£239.5m
Operating Profit	£71.1m

Gaming – Grosvenor Casinos

Another record year for Grosvenor Casinos with operating profit up by 11%.

Turnover	£150.1m
Operating Profit	£24.1m

ENTERTAINMENT!

Grosvenor Casinos continued to enhance its estate by relocating three casinos in 2001 – Birmingham, Blackpool and Great Yarmouth.

Grosvenor Casinos took advantage of the **extended licensing hours** with most casinos now staying open until 5.00am or 6.00am.

Electronic Roulette has been installed in many Grosvenor Casinos and is proving very popular with customers.

Two new **Hard Rock Casinos** will open in 2002 – London and Manchester – aimed at younger customers.

Rank Gaming is a leading contributor to the Gambling Review process and has created the industry's only dedicated website – **www.gamblingreview.co.uk**.

Rank Leisure Machine Services operates some 36,000 amusement machines in UK leisure venues.

Gaming Division – Grosvenor Casinos
Operating Profit £m

ENTERTAINMENT!

Hard Rock Cafe celebrated its 30th birthday in 2001 – the first cafe opened in London in 1971 and is still going strong.

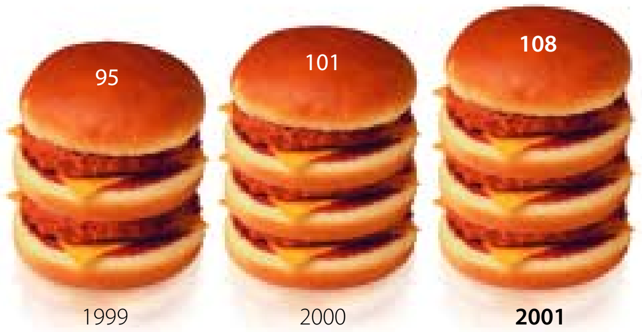
Hard Rock has continued to expand its estate and now has **57 owned** and 51 franchised cafes around the world.

The largest expansion ever is planned with ten new **European Hard Rock Cafes** including Birmingham, Munich and Nottingham, which will be designed to appeal to local customers.

The **Hard Rock Hotels** in Orlando, Thailand and Bali have been a popular choice for vacations – another hotel is planned for Chicago.

Two **Hard Rock resort casinos and hotel developments** are planned on Indian reservation land in Florida.

Hard Rock
Number of cafes worldwide



Hard Rock

Growth until 11 September – then a very credible performance in the circumstances.

Turnover	£248.4m
Operating Profit	£38.0m

Deluxe

Deluxe generated £137.7m in cash in 2001.

Turnover	£634.6m
Operating Profit	£74.1m

Deluxe Laboratories

Deluxe's film laboratories processed more film footage than ever before – four billion feet of film – providing cinema audiences with hours of quality entertainment

color by deluxe

deluxe
DELUXE LABORATORIES, INC.

deluxe
DELUXE ENTERTAINMENT SERVICES, INC.

ENTERTAINMENT!

Deluxe has opened two new state of the art film processing laboratories in Rome and Toronto – the new facilities will ensure optimum production efficiency and enable Deluxe to retain its market leading position.

Deluxe Film Laboratories processed over 300 titles in 2001 including Lord of the Rings, Planet of the Apes, A Beautiful Mind and Moulin Rouge.

Deluxe Video Services is operating close to optimum efficiency by making full use of the Arkansas facility.

Deluxe Video Services in the US has been complimented by customers on the efficient service it provides after the major restructuring of this business.

Deluxe distributed 63 million **DVDs** in the US and 90 million in total in 2001.

Deluxe
Film footage (billion feet)

Rank.com

TECHNOLOGY

Rank.com was launched in November and now offers a wide range of fun and exclusive pay-to-play and free-to-play games. It also incorporates all the Group's websites and a dedicated Investor Relations section.

Hardrock.com offers a range of merchandise, concert tickets and downloadable music along with details of all its worldwide venues.

Hardrockcasino.com is planned to launch in mid 2002; this Isle of Man licensed online casino will combine the Hard Rock brand with Rank's Gaming experience.

Mecca Bingo's and **Grosvenor's** enhanced database systems enable them to monitor and assess important customer information.

Electronic Roulette has been introduced in many **Grosvenor Casinos** with more planned for 2002.

Deluxe's new film laboratories in Rome and Toronto include the very latest technology.

Technology

Rank's businesses are leaders in established markets but we are determined to use the most up to date technology to give more to customers and add to our growth.

Employees

The total number of employees at 31 December 2001 was 19,500. 50% of employees are based in the UK, 40% in North America and the remainder across the rest of the world.

The Group has a number of broad human resources policies and principles which influence activities throughout all of its businesses. However, with so many diverse operations and cultures involved, each Division is given the freedom to put in place employee programmes, consistent with these principles, which will work best to deliver their business strategy. Employee welfare, training and development and communication are all at the head of the agenda but the way they are addressed across the Divisions is very different.

Gaming

By bringing together the human resources activities of all the businesses within the Division, we have created more focused, planned and dynamic people interventions. As usual, customer service has underpinned everything we've done, but two particular themes have emerged:

- The importance of training and development
- Innovative ways of using technology.

Combining both of these is "Doc Dabber" – the spokesperson of Mecca Bingo's upgraded Computer Based Training – who leads trainees through a range of challenging bingo-based scenarios. Supported by a programme that records the progress of both individuals and clubs, Doc is sure to play a major role in both product and customer-service training.

In a highly competitive and specialist market, we need to keep the way we recruit as fresh as possible. Grosvenor Casinos led the way by introducing a dedicated recruitment website. It's made such an impact that Mecca Bingo has also added a job opportunity section to its own site!

Traditional training is still very much in evidence too, with our first Diploma in Management Studies being awarded later in 2002. This specially designed, nationally recognised qualification is open to all management and takes in key areas such as marketing, finance, operations and human resources.

And as human resources is all about people, it's well worth celebrating the fact that for the third time, Rank Leisure Machine Services and Rank Seasonal Amusements secured Investors in People (IiP) status. This "quality" award demonstrates commitment to achieving business success through our people.

Hard Rock

Hard Rock Cafes are not only fun places to eat – they're also great places to work. In an environment dedicated to Rock 'n' Roll music what else would you expect?

The fact that some staff who joined the original London cafe 30 years ago are still with us is certainly proof of this. It's stories like these that have made the Hard Rocker, the quarterly magazine for (and written by) employees, such an essential read. Distributed to all Hard Rock Cafes around the world, it keeps the global team up-to-date with all the action and helps create a genuine feeling of togetherness.

This team is not only dedicated, but highly skilled too. We want people to enjoy their roles, but also to be the best at them, knowing that they can continue to grow with us. A series of award-winning training materials, which are actually fun to use and tap into the spirit of today's youth, ensures that our team knows how much it is valued. This is on top of the week-long induction programme that all staff-level employees enjoy. Training for management is important too. As well as our own university (Rock 101) which all managers attend in their first year, through a detailed seven-week training programme all are exposed to a healthy combination of soft-skill and hard-skill training, flavoured with a heavy dose of cultural indoctrination.

That really is a focus on development!

With an internal promotion rate of around 50%, it's clear that our training is more than hitting the mark.

Deluxe

Deluxe has the glamour of association with the film and packaged media industries. Fast moving… Exciting… But demanding and technically stretching. Yes we process film, yes we duplicate videos and DVDs but we also add distribution and post production services.

With operations in the US, UK, Canada and continental Europe, we have placed significant emphasis on two way communication and skill development, not only to keep all employees informed about what's going on within the business, but to give them an opportunity to maximise their contribution. In an environment that relies on continual technological development and shared knowledge, this improved communication and training has had a genuinely positive impact on employee morale and co-operation.

Employee suggestions are also encouraged within both the film laboratories and the video businesses, with their respective "Innovation Award" and "Great Performers" programmes. The best suggestion for improved operational efficiency and cost savings is singled out for special recognition.

Both management and employees have thrown themselves into this environment of improved communication and the results are apparent, with meaningful workplace changes being made thanks to both groups.

Board of Directors

The Board

1 Alun Cathcart Non-executive Chairman
Joined Rank as Chairman on 1 May 2001. Aged 58. Non-executive Chairman of Avis Europe Plc, non-executive Chairman of Selfridges Plc and non-executive Deputy Chairman of Belron International Limited.

2 Mike Smith Chief Executive
Appointed Chief Executive in April 1999. Aged 55. Formerly a Director of Hilton Group PLC. Director of The Motor Industry Research Association.

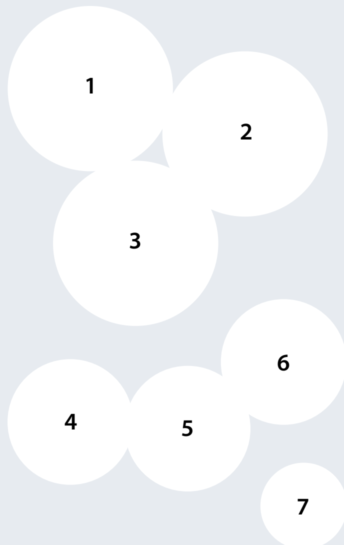
3 Ian Dyson Finance Director
Appointed Finance Director in September 1999. Aged 39. Formerly Group Financial Controller of Hilton Group PLC and previously a partner of Arthur Andersen.

4 Peter Jarvis, CBE Non-executive Director
An independent non-executive Director since 1995. Aged 60. Chairman of Debenhams PLC. Formerly Chief Executive of Whitbread PLC.

5 Oliver Stocken Non-executive Director
An independent non-executive Director since 1998. Aged 60. Deputy Chairman of 3i Group plc, non-executive Chairman of Lupus Capital plc, Rutland Trust PLC and Stanhope plc and a non-executive Director of Novar plc, Pilkington plc and GUS PLC. Formerly Finance Director of Barclays Bank PLC.

6 John Sunderland Non-executive Director
An independent non-executive Director since 1998. Aged 56. Chief Executive Officer of Cadbury Schweppes plc.

7 Charles Cormick Company Secretary



Executive Committee

Mike Smith
Ian Dyson

Pete Beaudrault
Appointed President and Chief Operating Officer of Hard Rock in January 1999 and to the Executive Committee in February 2000. Appointed Chief Executive Officer of Hard Rock in February 2001. Joined Rank in 1995. Aged 47. Based in Orlando, Florida.

David Boden
Appointed Managing Director of Gaming in January 1998 and to the Executive Committee in January 1999. Formerly Managing Director of Grosvenor Casinos. Joined Rank in 1977. Director of The National Bingo Game Association Limited. Aged 45.

Charles Cormick
Joined Rank as Company Secretary in 1995. A solicitor, and formerly Company Secretary of Lex Service PLC. Aged 50.

Cyril Drabinsky
Appointed to the Executive Committee in September 2001 as President, Deluxe Film Worldwide. Formerly President, Deluxe Laboratories Inc. Joined Rank in 1987. Aged 44. Based in Toronto, Ontario.

Peter Pacitti
Appointed to the Executive Committee in September 2001 as President, Deluxe Video Services Worldwide. Formerly Managing Director, Deluxe Video Services Europe. Joined Rank in 1981. Aged 44. Based in Chicago, Illinois.

Christine Ray
Appointed to the Executive Committee as Group Human Resources Director in February 2001. Formerly Human Resources Director of Rank's Holidays Division, having joined Rank following the acquisition of Mecca Leisure in 1990. Aged 54.

Audit Committee

Oliver Stocken – Chairman
Alun Cathcart
Peter Jarvis
John Sunderland

Nomination Committee

The composition of this Committee is determined according to the particular appointment under consideration.

Remuneration Committee

Peter Jarvis – Chairman
Oliver Stocken
John Sunderland

Operating and Financial Review

Summary of results

	Turnover		Profit before tax	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Gaming	**437.1**	442.6	**95.7**	82.4
Hard Rock	**248.4**	260.2	**38.0**	46.3
Deluxe	**634.6**	651.1	**74.1**	73.3
US Holidays	**46.8**	50.2	**9.5**	10.0
Central costs and other	**–**	–	**(7.6)**	(8.9)
Continuing operations	**1,366.9**	1,404.1	**209.7**	203.1
Discontinued operations	**–**	389.3	**–**	59.7
	1,366.9	1,793.4	**209.7**	262.8
Net income (loss) from associates and joint ventures			**2.7**	(9.4)
Managed businesses' interest			**(24.3)**	(67.4)
Profit before tax and exceptional items			**188.1**	186.0
Exceptional items			**(27.6)**	(527.1)
Profit (loss) before tax			**160.5**	(341.1)
Earnings per share before exceptional items			**22.5p**	17.3p
Dividend per share			**12.6p**	12.0p

Earnings per share before exceptional items of 22.5p was 30% ahead of last year. This improvement reflects the benefits of the major restructuring of the Group in 2000, growth in operating profit from our continuing operations – no mean achievement given the economic slow down in the US and the impact of the events of 11 September on Hard Rock – and a further significant reduction in the effective tax rate.

Turnover from continuing operations was down 3% over the year as a whole but the trend varied considerably between the first and second half of the year. In the first half of the year turnover was down 5%, but the comparison was distorted by the loss of the Fox US video contract in Deluxe and exceptional business at the Clermont casino in the first half of 2000. In the second half turnover was flat despite an 11% decline at Hard Rock, with Gaming up 6% and Deluxe up 1%.

Operating profit from continuing operations before exceptional items was up 3%. Gaming was again the star performer with profit up 16%. Deluxe film was 11% ahead of last year, more than compensating for the decline in video profit. Hard Rock was adversely affected by the events of 11 September; up to the end of August 2001 profit was 6% ahead of 2000.

Managed businesses' interest before exceptional items was £43.1m below last year reflecting a substantial reduction in net debt to £248.1m at 31 December 2001, compared to an average of £858.1m in 2000. The effective tax rate has been further reduced to 17.0% (2000 – 21.5%).

The Group recorded a net exceptional charge of £27.6m before tax. £25.2m of this charge relates to Deluxe, being the net of restructuring costs and asset write-offs and the profit on the sale and leaseback of the Arkansas video duplication facility. An analysis of exceptional items is given on page 29.

The Board has recommended a final dividend of 8.4p, an increase of 5%, making a full year dividend of 12.6p (2000 – 12.0p).

Gaming

		Turnover		Operating profit	
		2001 £m	2000 £m	**2001 £m**	2000 £m
Mecca Bingo	– UK	**226.0**	219.9	**67.6**	54.9
	– Spain	**13.5**	12.6	**3.5**	3.6
		239.5	232.5	**71.1**	58.5
Grosvenor Casinos	– UK	**140.6**	146.9	**23.4**	21.0
	– Belgium	**9.5**	10.7	**0.7**	0.7
		150.1	157.6	**24.1**	21.7
Rank Leisure Machine Services		**47.5**	52.5	**2.3**	2.2
Rank.com		**–**	–	**(1.8)**	–
		437.1	442.6	**95.7**	82.4

Gaming had another excellent year with operating profit up 16% after accounting for the start up costs of Rank.com, the Group's online gaming site, of £1.8m. Gaming has now increased operating profit by 65% in the last three years. Whilst improved margins and tight cost control have been instrumental in generating this profit growth, the business also demonstrated strong underlying turnover growth in 2001, particularly in the second half of the year when turnover was up 6%. The first two months of 2002 have continued to show strong growth.

Mecca Bingo

	2001	2000	Change
UK Bingo statistics			
Admissions (000s)	**23,879**	25,894	-7.8%
Spend per head (£)	**9.45**	8.48	11.4%

Mecca Bingo in the UK performed extremely well, increasing turnover by 3% and operating profit by 23%. The turnover performance was particularly strong in the later part of the year when a number of promotional initiatives were implemented including free bingo on Thursday evenings and selected television advertising. This activity has been very successful and led to an increase in turnover of 5% in the second half of the year. The trend in admissions has improved from down 11% in the first half to down 4% in the second half. Plans are in place to continue with similar promotional activity in 2002. The profit margin improved further to almost 30% (2000 – 25%) despite an increase of £3.1m in promotional spend. The margins in the second half of the year were largely unchanged from the first half, demonstrating the effectiveness of the targeted promotional spending.

In June, Mecca acquired two clubs in Rotherham and Wakefield which are both trading ahead of expectations. Two under-performing clubs were closed. Further opportunities for club acquisitions are under review.

The Spanish bingo clubs continued to perform satisfactorily with operating profit of £3.5m. We have recently acquired a new club in Barcelona and are currently exploring a number of opportunities to add to our portfolio in this attractive bingo market.

Operating and Financial Review continued

Grosvenor Casinos

	Turnover		Operating profit	
	2001 £m	2000 £m	**2001 £m**	2000 £m
UK				
London – upper	**18.9**	38.2	**3.0**	6.7
London – other	**51.9**	47.0	**11.6**	9.2
Provincial	**69.8**	61.7	**16.5**	12.7
Overheads	**–**	–	**(7.7)**	(7.6)
	140.6	146.9	**23.4**	21.0

	Admissions		Handle per head	
	2001 000s	2000 000s	**2001 £**	2000 £
UK				
London – upper	**47**	40	**2,271**	4,359
London – other	**629**	628	**409**	392
Provincial	**2,473**	2,478	**141**	126

Grosvenor Casinos had another good year with profit up 11%. The results were driven by outstanding performances by the provincial and the London – other casinos.

The Group's five London casinos experienced contrasting results in 2001. Operating profit from the two upper end casinos – the Clermont and the Park Tower – was £3.7m lower than 2000. This reflects a combination of comparison against a very strong year for the Clermont in 2000 and a lower than normal win percentage of 17.6% (2000 – 21.8%). The other London casinos – the Victoria, Gloucester and Connoisseur – had an excellent year with turnover up 10% and operating profit up 26%. Whilst admissions were flat, handle per head was up 4% and the win percentage was 18.9% (2000 – 17.9%). These casinos experienced an improving trend as the year progressed; admissions were up 2% and handle per head 6% in the second half of the year. The London Hard Rock casino, to be located off Leicester Square, is expected to open in late 2002.

Trading in the provincial casinos was strong throughout the year with turnover up 13% and operating profit up 30%. Results were also particularly encouraging in the second half of the year, with a combination of the successful relocation of the Birmingham, Blackpool and Great Yarmouth casinos, later opening in selected clubs, and the introduction of electronic roulette machines, leading to admissions growth of 4%, handle per head growth of 18%, and turnover growth of 24%. A further four provincial casinos are scheduled to be relocated over the next 18 months and the new Hard Rock casino in Manchester is expected to open in July 2002.

Rank Leisure Machine Services

Rank Leisure Machine Services' operating profit was broadly in line with last year at £2.3m.

Rank.com

The Group's internet gaming site, Rank.com, was launched in November 2001. The site currently offers a range of exclusive fun-to-play and pay-to-play games. On 22 January 2002, the Group was awarded a licence by the Isle of Man Government to operate an online casino which will be launched by June 2002.

Hard Rock

	Turnover*		Operating profit*	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Owned cafes	**233.3**	248.6	**41.5**	54.3
Cafe franchise and other income	**7.6**	7.1	**7.5**	7.9
Hotel franchise and other income	**3.3**	0.1	**2.3**	0.1
Territory sales	**4.2**	4.4	**4.2**	4.4
Advertising and promotion			**(1.7)**	(5.0)
Overheads			**(14.1)**	(15.4)
Restructuring charge			**(1.7)**	–
	248.4	260.2	**38.0**	46.3

*Results for 2001 are for 52 weeks (2000 – 53 weeks).

Hard Rock operating profit was £38.0m. Satisfactory progress was made in the first eight months of 2001 following the major changes made in 2000. The like for like sales trend had improved and had been particularly encouraging in the two months following the half year, helped by the successful reconfigurations of 13 of the major cafes. At the end of August operating profit was 6% ahead of 2000.

The tragic events of 11 September had an immediate negative impact on the business, in particular in the major tourist markets such as Orlando, New York, Washington DC, Las Vegas, Hollywood, Paris, London and Rome. Like for like sales in the period from 11 September to the year end were down 17.1%, with the more tourist dependent merchandise sales down 22.1%.

Hard Rock like for likes

	2001 %	Pre 11 September %	Post 11 September %	2002 to date %
Total	-6.7	-3.0	-17.1	-4.4
Food and beverage	-4.1	-0.6	-13.4	-0.6
Merchandise	-9.8	-5.8	-22.1	-10.6
North America	-8.0	-4.6	-17.9	-4.0
Europe	-0.5	-4.4	-13.9	-6.7

There has been a steady recovery in sales trends over the last three months. In December like for like sales were down 10.6% and in the eight weeks since the year end sales are down 4.4%. Within this food and beverage sales have been relatively strong reflecting the success of local marketing initiatives. Merchandise has improved but remains difficult due to lower levels of tourist traffic; more than half of the merchandise shortfall is concentrated in four US cafes.

We firmly believe that the events of 11 September will have no lasting impact on the prospects for Hard Rock. Plans to expand the cafe network are unaffected; Birmingham and Munich have recently opened as part of the development plan for a further 10 cafes in the UK and continental Europe. Sites have been acquired in Nottingham, Lisbon and Cologne. In the US, Pittsburgh, Minneapolis and Austin will open in 2002 and Phoenix will be relocated. New franchised cafes opened in Belfast, Queenstown (New Zealand), Cairo, Universal Studios Osaka, Bogota and Osaka City. Interest from potential franchisees remains at a high level with a number of new cafes expected to open in 2002 including Moscow, Sicily, Puerto Allegre, Kuwait and a second cafe in Tokyo.

The prospect for licensing the brand within hotels and casinos also remains strong. The Hard Rock hotel in Orlando contributed £2.2m in its first year despite being impacted by 11 September. A resort hotel in Pattaya, Thailand opened in November and the Chicago hotel is scheduled to open in 2003. The Seminole Indian Nation development in Florida is currently going through an exercise to raise $410m in municipal bonds in the US market. The development, which will consist of two Hard Rock resorts including casinos and hotels, is expected to open in 2004.

Operating and Financial Review continued

Deluxe

	Turnover		Operating profit*	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Film processing	**341.5**	300.2	**53.9**	48.6
Video duplication and distribution	**285.9**	346.8	**22.9**	29.4
DVD replication	**7.2**	4.1	**(2.7)**	(4.7)
	634.6	651.1	**74.1**	73.3

*before exceptional items.

Film processing had another excellent year. Film footage was up 9%, turnover 14% and operating profit 11%. The operating profit is stated after a charge of £3.2m associated with the relocation of the Toronto laboratory; the 2000 profit was stated after a similar charge of £3.7m also relating to the Toronto relocation. The profit margin in 2001, after adjusting for the one-off charges, was slightly lower due to the high level of front end work in the first half of the year and the delay of the new Rome laboratory, which opened in June. The margin in the second half was in line with last year. Films processed in the year included Lord of the Rings, A Beautiful Mind, Moulin Rouge and Planet of the Apes. The schedule for 2002 is strong. The new Toronto laboratory began processing film in November and will become fully operational by April 2002. Rome is now fully operational.

The video business continued to prove resilient. In the US the number of video cassettes duplicated for our major studio customers (excluding Fox) was broadly in line with 2000. Turnover was £60.9m behind 2000, all of which is accounted for by the loss of the Fox contract, but the successful restructuring undertaken in the US mitigated the impact on operating profit. A similar restructuring exercise took place in Europe with the closure of duplication plants in France and Holland and restructuring in the UK and Germany. The cost of this exercise was £8.9m and has been charged as an exceptional item.

The restructuring exercises in the US and Europe are a key part of our strategy to maximise cash returns from the video business as volumes decline. A further initiative was to combine the US and European businesses under one management team, to facilitate more effective co-ordination. An immediate benefit of this combination is in the area of information technology and systems, which are to be consolidated globally. As a consequence of this decision an exceptional charge of £28.6m has been recognised in the year, primarily relating to the impairment of the carrying value of information systems.

A sale and leaseback of the real estate, plant and machinery at the Arkansas duplication facility was completed during 2001 for proceeds of £49.1m, resulting in a gain of £12.3m, included within exceptional items.

The DVD replication plant in California achieved improved volume and a reduced loss of £2.7m. The DVD market remains difficult but we continue to believe that the capability to replicate DVDs is an important component of Deluxe's offering to its customers. Deluxe distributed some 90m (2000 – 56m) DVDs during the year.

US Holidays

US Holidays operating profit was £9.5m (2000 – £10.0m). The business generated net cash of £13.3m (2000 – £13.5m).

Central costs and other

	2001 £m	2000 £m
Central costs	**(10.2)**	(10.6)
Other	**2.6**	1.7
	(7.6)	(8.9)

Associates and joint ventures

	2001 £m	2000 £m
British Land	**1.6**	1.9
ETS	**1.1**	0.3
Universal Studios	**–**	(11.6)
	2.7	(9.4)

The profit from the British Land joint venture declined following the disposal of properties accounting for around 20% of the value of the joint venture. The net loss on disposal of these properties is included within exceptional items.

The increased contribution from ETS, a distributor of release prints and trailers, reflects the acquisition of a further 25% of the share capital on 1 April 2001 for £1.7m and a full year's share of profits from the original 25% investment. The Group now has a 50% interest in this business.

Interest before exceptional items

	2001 £m	2000 £m
Interest payable and other charges	**34.6**	75.4
Interest receivable	**(7.5)**	(8.0)
Net profit on redemption of fixed rate debt	**(2.8)**	–
	24.3	67.4

Average interest rate	**7.1%**	7.5%
Interest cover (times)	**8.6**	3.9
Fixed charge cover (times)	**4.6**	3.0

The net interest charge was £43.1m lower than 2000, reflecting the substantial reduction in average net debt, a lower average rate and the net one-off profit of £2.8m on early redemption of fixed rate debt.

Taxation

The effective tax rate on Rank managed businesses, excluding exceptional items, is 17.0% (2000 – 21.5%). The effective rate benefits from the refinancing of the Group's US interests as well as from prior year capital allowance disclaimers and US tax losses.

Exchange rates

The net translation effect of changes in average exchange rates between 2000 and 2001 was to increase turnover by £28.8m and profit before tax and exceptional items by £3.0m. The increase in profit before tax comprises an increase in operating profit of £4.0m (Deluxe £2.4m, Hard Rock £1.1m, US Holidays £0.4m, Gaming £0.1m) offset by higher interest payable of £1.0m. The average rates are given below:

	2001	2000
US dollar	**1.43**	1.50
Canadian dollar	**2.23**	2.21
Euro	**1.61**	1.66

Exceptional items

	£m
Exceptional items within operating profit	
Restructuring charge at Deluxe Video Europe	**(8.9)**
Write-off of information systems within Deluxe Video	**(28.6)**
	(37.5)
Non-operating exceptional items within joint ventures	**(0.6)**
Non-operating exceptional items	
Disposal of Arkansas real estate, plant and equipment	**12.3**
Other	**(1.8)**
	(27.6)

Following the successful restructuring within the US video business in 2000 a similar, albeit smaller scale, exercise was undertaken in Europe. This exercise involved the closure of duplication plants in France and Holland and restructuring in the UK and Germany. The total cost was £8.9m.

In August 2001, the Deluxe video businesses in the US and Europe were combined under the US management team. As part of the combination of these businesses, a decision was taken to consolidate information systems and support arrangements. As a consequence of this decision an exceptional charge of £28.6m has been recognised in the year, primarily relating to the impairment of the carrying value of information systems.

The non-operating exceptional item within joint ventures is a net loss incurred on the disposal of six properties by the British Land joint venture.

On 6 June 2001, Deluxe completed the sale and leaseback of the plant and machinery at the video duplication facility in Arkansas for proceeds of £27.3m. On 28 December 2001, Deluxe also completed the sale and leaseback of the real estate in Arkansas for proceeds of £21.8m. The two transactions taken together realised a profit on disposal of £12.3m.

Operating and Financial Review continued

Cash flow

	2001 £m	2000 £m
Cash inflow from operating activities	**266.4**	358.0
Capital expenditure	**(103.3)**	(144.6)
Fixed asset disposals	**15.2**	20.1
Operating cash flow	**178.3**	233.5
Distributions from associates and joint ventures	**2.4**	2.6
Acquisitions and investments	**(14.4)**	(45.3)
Disposals (including sale and leaseback transactions)	**52.9**	1,212.9
	219.2	1,403.7
Interest, tax and dividend payments	**(151.1)**	(179.5)
	68.1	1,224.2
Purchase of Ordinary share capital	**–**	(304.3)
	68.1	919.9

The Group generated net cash inflow of £68.1m in the year. Excluding acquisitions, investments and disposals, the Group generated £29.6m of cash, thereby again meeting the objective of being cash positive at this level, after generating £57.9m in 2000.

Operating cash flow was £178.3m (2000 – £233.5m). The 2000 figure includes operating cash flow of £28.0m from discontinued businesses. The decline in continuing businesses is largely due to £29.8m additional capital expenditure in 2001.

Capital expenditure

	2001 £m	2000 £m
Gaming	**48.5**	34.3
Hard Rock	**20.0**	13.9
Deluxe	**33.5**	24.2
US Holidays	**1.3**	1.1
Total on continuing businesses	**103.3**	73.5
Discontinued businesses	**–**	71.1
Total	**103.3**	144.6

All three principal businesses incurred more capital expenditure as the Group accelerated its expansion plans. Gaming invested in club relocations and improved facilities within its estate; Hard Rock opened a new cafe in Birmingham, rebuilt Toronto and invested £9m in the reconfiguration of 13 of its largest cafes; Deluxe completed the Rome laboratory and embarked on the relocation of the Toronto laboratory.

Acquisitions and investments includes expenditure in respect of the Group's interest in the Universal Hotels, the acquisition of a further 25% of ETS, the acquisition of an equity interest in the Chicago Hard Rock hotel and an investment of £1.9m in The Rank Group Plc Ordinary shares in connection with the Group's long term incentive plan.

Disposals largely comprises £49.1m in respect of the sale and leaseback of the Arkansas video duplication facility, plant and machinery.

Interest, tax and dividend payments includes £13.6m in respect of early redemption of the US private placements. An exceptional provision was made in respect of this item within the 2000 results.

Net debt

Net debt at 31 December 2001 was £248.1m compared with £319.9m at 31 December 2000. Net debt as a percentage of shareholders' funds was 42% compared with 58% at 31 December 2000.

Pensions

An actuarial valuation of the Group's defined benefit pension scheme for UK employees was conducted at 5 April 2001. At the valuation date the market value of the assets of £589.9m exceeded the market value of the liabilities by 9%, giving a surplus of £49.2m. At December 2001, the recoverable surplus on the pension fund would be £36.0m calculated in accordance with the provisions of Financial Reporting Standard 17 "Retirement Benefits".

Borrowings

The Company's articles of association provide that borrowings shall not exceed one and a half times the adjusted share capital and consolidated reserves of Rank. As at 31 December 2001, this limit was £865.2m compared with relevant borrowings of £305.0m.

Treasury policy

Rank seeks to achieve certainty of value on its foreign currency purchases and sales by buying or selling forward a portion of its estimated net currency requirements up to a year ahead, or longer where an external currency exposure exists, or is forecast to exist. At 31 December 2001, at least 90% of anticipated core currency transaction exposures for the following 12 months had been hedged. Balance sheet currency exposure in respect of investments in overseas subsidiaries is minimised by hedging the underlying asset position with currency borrowings or through the use of currency swaps.

Rank seeks to protect itself against material adverse movements in interest rates by undertaking controlled management of the interest rate structure on Group investments and borrowings. This exposure is managed by fixing interest rates on a portion of the Group's borrowings dependent on the level of gearing.

The Directors review and agree the broad policies and guidelines for all significant areas of treasury activity, including key ratios, funding and risk management. Implementation of these policies is carried out by the Group treasury department, under close management direction. The treasury function is not operated as a profit centre.

Rank uses off-balance sheet financial instruments, including foreign exchange forward contracts and interest rate swaps, in its management of exchange rate and interest rate exposures. Off-balance sheet financial instruments are only used to hedge underlying commercial exposures. Therefore, while these instruments are subject to the risk of loss from changes in exchange rates and interest rates, such losses would be offset by gains in the related exposures. Rank does not speculate in derivative financial instruments. Realised and unrealised gains and losses on foreign exchange forward contracts that hedge firm third party commitments are recognised in income in the same period as the underlying transaction. Net interest paid or received on interest rate swap contracts is included in net interest expense.

Further information on borrowings and financial instruments is contained in notes 18 and 19 to the accounts.

Shareholders' funds

Shareholders' funds were £584.2m at the end of 2001 compared with £556.3m at the end of 2000.

Directors' Report

The Directors submit their Report and Statement of Accounts for the year ended 31 December 2001.

Principal activities and business review

Rank is one of the UK's leading leisure and entertainment companies and an international provider of services to the film industry. In 2001, leisure and entertainment activities included casinos and bingo clubs, and Hard Rock Cafes and global rights to the Hard Rock brand. Rank also owns film processing and video and digital versatile disc ("DVD") duplication and distribution facilities. Rank operates primarily in the UK and North America, although it also has activities in continental Europe and other parts of the world.

An analysis of turnover, profit, operating assets and net cash flow by business activity is given on pages 48 to 49. The Group's continuing activities and businesses are reported on in the Operating and Financial Review.

Result and dividends

Profit before tax for the year was £160.5m (2000 – £341.1m loss). Profit for the year after tax and minority interests was £126.3m (2000 – £320.4m loss).

The Directors recommend a final dividend of 8.4p per Ordinary share which, together with the interim dividend of 4.2p already declared, makes a total for the year of 12.6p per Ordinary share (2000 – 12.0p). Subject to approval at the annual general meeting, the final dividend will be paid on 10 May 2002 to those shareholders whose names are on the register on 12 April 2002.

Fixed assets

The Directors have considered the total net book value of land and buildings and are of the opinion that it is not significantly different from market value at 31 December 2001.

Share capital

Details of the new Ordinary shares issued pursuant to the exercise of options under Rank's share option schemes are set out in note 23. Note 23 also contains details of the Ordinary shares issued pursuant to the conversion of the Company's Convertible Preference shares.

A resolution will be proposed at the annual general meeting to authorise the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over Ordinary shares for cash up to a maximum nominal amount representing 5% of the issued Ordinary share capital, without first making a pro rata offer to all existing Ordinary shareholders.

Resolutions will also be proposed at the annual general meeting to authorise the Company to purchase up to 15% of its Ordinary shares and Convertible Preference shares at or between the minimum and maximum prices specified in the relevant resolution set out in the notice of meeting. The authorities would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchases could be expected to result in an increase in earnings per share.

Directors

The current Directors of the Company are listed on page 23 and all of them were Directors of the Company throughout the year, except for Alun Cathcart who was appointed a Director and Chairman with effect from 1 May 2001. Alun Cathcart (a member of the Audit Committee) will retire at the annual general meeting and, being eligible, will offer himself for re-appointment. He has a service agreement with the Company terminable on 12 months' notice.

Oliver Stocken (Chairman of the Audit Committee and a member of the Remuneration Committee) and Mike Smith will retire by rotation at the annual general meeting, and, being eligible, will offer themselves for re-appointment. Oliver Stocken does not have a service agreement with the Company; Mike Smith has a service agreement with the Company terminable on 12 months' notice.

Sir Denys Henderson, Hugh Jenkins and Christine Morin-Postel retired as Directors on 26 April 2001 and Jerry Fowden resigned as a Director on the same day.

The interests of the Directors in the shares of the Company, together with their remuneration and, where applicable, their service agreements, are detailed in the Remuneration Report. Biographical details of the Directors are given on page 23.

Human resources

The Company recognises that the contribution made by its employees is crucial to the success of each of its businesses. Substantial investment is therefore made in the training, development and motivation of staff with particular attention to ensuring customer satisfaction through the consistent achievement of high standards of service and delivery of quality products.

Employee involvement in the direction and objectives of the business is encouraged through the use of incentive schemes to focus employees on the key performance indicators of each business. In addition, communication and consultation programmes exist at site, company and Group level.

The Company endorses the active application of equal opportunities policies and programmes to provide fair and equitable conditions for all employees regardless of sex, family status, religion, creed, colour, ethnic origin, age, disability or sexual orientation.

Health and safety

The Board receives regular reports on health and safety matters. The Chief Executive has been nominated by the Board as the main Board Director responsible for health and safety across the Group. The Group requires each division to develop and implement its own safety policy, organisation and arrangements, to respond to the particular health and safety risks in the division. The Group also requires an annual report from each division on health and safety performance for the year.

Environment

The Group's policy is to encourage respect for the environment and Rank adopts an environmentally responsible attitude in the fulfilment of its business objectives. Close attention is paid to energy and water conservation and recycling of waste material where economically practical.

The Board is considering the disclosure guidelines on socially responsible investment published by the Association of British Insurers in November 2001 and will provide further information on social, ethical and environmental issues in future reports.

Payment of suppliers

The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. Given the diversity of the Group's businesses and the widely differing credit terms which apply in the various industries and territories in which they operate, the Directors consider that it is not meaningful to disclose an average period of credit taken.

Significant shareholdings

At the date of this report the Company has been notified of the following interests over its Ordinary shares in accordance with Sections 198 to 208 of the Companies Act 1985: AXA-UAP S.A. (35,429,050 – 5.99%), CGNU Plc (24,170,391 – 4.08%), Barclays Plc (23,291,274 – 3.93%) and FMR Corp & Fidelity International Limited (23,953,740 – 4.05%).

Charitable and political donations

Charitable donations made in the UK during the year amounted to £68,000 (2000 – £82,000). Overseas companies supported a variety of local and national charities and, in particular, Hard Rock Cafe International (USA) Inc. donated approximately US$412,000 (2000 – US$205,000), continuing its focus on humanitarian and environmental causes. The Company made no political donations in the year.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution that they be re-appointed, at a remuneration to be agreed by the Directors, will be proposed at the annual general meeting.

By order of the Board

Charles Cormick
Secretary, The Rank Group Plc, Registered No. 3140769
Registered Office:
6 Connaught Place, London W2 2EZ

1 March 2002

Composition and role of the Remuneration Committee

Rank's Remuneration Committee is chaired by Peter Jarvis and its other members are Oliver Stocken and John Sunderland. All of the members are independent non-executive Directors of Rank; details of their other directorships are given on page 23. The Committee has formal terms of reference which include making recommendations to the Board on the Company's framework of executive remuneration and its cost. The Committee also determines on behalf of the Board the specific remuneration, benefits and employment packages of the Chairman and the executive Directors.

The Committee meets at least twice a year; the Chairman and the Chief Executive normally attend its meetings, as do the Group Human Resources Director and the Company Secretary, except for when their own remuneration is being considered. A report is prepared at least annually for the Committee by the Group Human Resources Director on remuneration and employment conditions existing within the Group, including current and anticipated levels of pay increases. A specially commissioned remuneration report is prepared by the Monks Partnership, now part of PricewaterhouseCoopers, and the Group takes part in a number of top executive remuneration surveys. Advice on long term incentive arrangements is also currently provided by New Bridge Street Consultants. External independent remuneration consultants do not normally attend the Committee's meetings.

In 2001, the Board accepted all of the Committee's recommendations, without amendment.

Remuneration policy

The Remuneration Committee's policy is to design and implement remuneration packages for executive Directors to attract, retain and motivate them to meet the reasonable expectations of shareholders, in terms of enhancing shareholder value. To reinforce the alignment of the interests of Directors with shareholders, in 2001 the Committee introduced shareholding guidelines for executive Directors, who have a number of years to build up the specified holding of shares.

The specific policies regarding each element of the remuneration packages are as follows:

Base salary and benefits

The policy is that base salaries should be reviewed annually, taking into account individual performance, and paid at the median level in comparison with comparable jobs in selected relevant companies. Comparator groups are derived from their sector involvement, turnover and market capitalisation.

Benefits include a car, or cash allowance in lieu, and life, disability and health insurance.

Annual cash bonus

As with other employees, the Committee believes that it is important that part of a Director's total remuneration is subject to the Group's overall performance in a given year. In 2000 a simplified bonus scheme was introduced for executive Directors and certain selected top management in recognition of the need to add focus to the drive to improve performance, and to ensure the retention and incentivisation of key management at a time when the Group was undergoing major restructuring. This scheme continued in 2001, with cash bonuses being based on the achievement of operating profit targets and clearly defined personal objectives. On an annualised basis, the maximum level of bonus is 50% of base salary which is paid for achievement of targets above 110% of budgeted performance.

Additional cash bonuses

As disclosed last year, additional cash bonuses accrued to executive Directors in 2000 to provide the Directors with the same potential percentage level of bonus that their senior colleagues enjoyed under a special retention scheme, and this continued for the first six months of 2001. These additional cash bonuses were paid in 2001; those relating to the first six months of 2001 are included in the table overleaf headed "Annual Bonus".

For the second six months of 2001, additional cash bonuses accrued to executive Directors equal to one half of the ordinary cash bonuses. Payment of these additional cash bonuses is deferred until December 2002 and is conditional on the individual being employed by the Company at the date of payment. The amounts are disclosed in the table overleaf headed "Deferred Bonus".

Long Term Incentives

In addition to a Save As You Earn ("SAYE") option scheme which is generally open to all full time UK employees and Directors, the Committee operates two long term incentive programmes for executive Directors and senior management. These are an executive share option scheme, and a long term incentive plan.

Executive Share Option Scheme

Both executive Directors were granted options under the Company's executive share option scheme at the time of their recruitment to the Company in 1999, but no further options have been granted to them as they have subsequently participated in the Company's long term incentive plan (see below). Details of the options are disclosed in the table overleaf.

The performance criteria attaching to the exercise of the options is an average annual real growth of at least 2% in normalised earnings per share over a three-year period.

It is proposed to introduce a new executive share option scheme in 2002, details of which are contained in the Chairman's letter dated 25 March 2002, and to allow executive Directors and other senior management to participate in future in both this new scheme and the long term incentive plan in respect of the same performance periods. The levels of awards under the long term incentive plan will however be reduced in future when there is simultaneous participation in the executive share option scheme. The performance criteria for the new executive share option scheme will also be more demanding than that for the current scheme.

Long Term Incentive Plan

The current long term incentive plan, the Rank Group 2000 Long Term Incentive Plan, provides for executive Directors and selected executives to be given restricted awards over existing Ordinary shares with a market value of up to one times base salary. Awards are released if a total shareholder return ("TSR") target is achieved and if there is an average annual real growth in normalised earnings per share of at least 2% over the relevant performance period, comprising three consecutive financial years of the Company. TSR is measured by reference to the change in the price of Ordinary shares over the performance period and the gross value of dividends received on the shares, assuming they are immediately reinvested in shares during that period.

The group of companies with which the TSR of the Company will be compared currently comprises Airtours, Arcadia Group, BAA, Boots, Carlton, Granada Compass, De Vere, Dixons, EMI, GUS, Hilton, Kingfisher, Mothercare, Next, Pearson, Six Continents, Scottish & Newcastle, WH Smith and Whitbread.

A participant in the plan will receive the total number of shares comprised in the restricted award if the Company's TSR performance ranks in the top quartile of the comparator group. To receive the minimum award (30%), the Company's TSR performance must exceed the median performance. The percentage of shares to be released for performance between the minimum and maximum targets will increase on a straight line basis.

The following conditional awards were granted to executive Directors in 2000 and 2001:

Name	Date of conditional award	Performance period ending December	Year of release	At 1.1.01 Number	Shares conditionally awarded Number	At 31.12.01 Number
Ian Dyson	22.05.00	2002	2003	163,822	–	163,822
	27.03.01	2003	2004	–	153,191	153,191
Mike Smith	22.05.00	2002	2003	317,406	–	317,406
	27.03.01	2003	2004	–	283,687	283,687

As at 31 December 2001, for awards to be released in 2003, the Company was ranked sixth in its comparator group, and for awards to be released in 2004, the Company was ranked third in its comparator group. If these ranking positions were to be maintained, 86% of the relevant number of Ordinary shares detailed above would be released in 2003, and 100% in 2004.

The Directors' interests in shares of the Company, including options to purchase Ordinary shares under the terms of the Group's executive share option scheme ("ESOS") and SAYE option scheme, are given below:

	31 December 2001					1 January 2001*			
	Ordinary shares	**Preference shares**	**ESOS**	**SAYE**	**Exercise price (p)**	Ordinary shares	Preference shares	ESOS	SAYE
Alun Cathcart	**50,000**	**–**	**–**	**–**	**–**	50,000	–	–	–
Ian Dyson	**20,000**	**–**	**278,225**	**–**	**248.00**	20,000	–	278,225	–
Peter Jarvis	**20,113**	**–**	**–**	**5,412**	**179.00**	20,113	–	–	5,412
Mike Smith	**80,000**	**–**	**795,580**	**–**	**226.25**	40,000	–	795,580	–
Oliver Stocken	**25,000**	**–**	**–**	**–**	**–**	25,000	–	–	–
John Sunderland	**1,058**	**–**	**–**	**–**	**–**	1,058	–	–	–

*or date of appointment if later.

No options to subscribe for Ordinary shares of the Company were granted to Directors, or lapsed, during the year ended 31 December 2001. The market price of an Ordinary share at 31 December 2001 was 230p and the range during the preceding 12 months was 163p to 248p. Options outstanding at 31 December 2001 are exercisable at various dates between 1 April 2002 and 12 September 2009, subject to satisfaction of applicable performance conditions. There were no changes in Directors' interests between 1 January 2002 and the date of this report.

Pursuant to the provisions of the Companies Act 1985, each executive Director is also deemed to be interested in the Ordinary shares of the Company held by The Rank Group Plc Employee Benefit Trust. At 1 January 2001 the interest was in a total of 324,389 Ordinary shares, and at 31 December 2001, and at the date of this report, the interest is in a total of 1,224,389 Ordinary shares.

Pension arrangements

The executive Directors are members of the Rank Pension Plan, which is a defined benefit scheme. Accrual rates do not exceed 1/30th of an individual's pensionable earnings for each year of pensionable service. Cash bonuses and the cash values of other benefits in kind are not pensionable. The normal retirement age for executive Directors is 60.

The amount of pension which can be provided by the Rank Pension Plan to the executive Directors is restricted by the earnings cap imposed by the Finance Act 1989. The Company therefore also pays an amount equal to 45% of Mike Smith's base salary into an unapproved retirement benefit scheme, which is a defined contribution scheme, and Ian Dyson receives a salary supplement of 20% of his base salary.

Directors' emoluments Chairman and executive Directors	Base salary 2001 £000	Base salary 2000 £000	Benefits 2001 £000	Benefits 2000 £000	Annual bonus 2001 £000	Annual bonus 2000 £000	Deferred bonus 2001 £000	Deferred bonus 2000 £000	Total emoluments excluding pensions 2001 £000	Total emoluments excluding pensions 2000 £000
Alun Cathcart[1]	100	–	7	–	–	–	–	–	107	–
Ian Dyson	270	240	20	16	166	107	25	107	481	470
Jerry Fowden[2]	43	238	20	44	–	190	–	60	63	532
Sir Denys Henderson[2]	92	275	7	13	–	–	–	–	99	288
Mike Smith	500	465	28	23	305	207	45	207	878	902

Non-executive Directors' emoluments	2001 £000	2000 £000
Peter Jarvis	32	32
Hugh Jenkins[2]	9	28
Christine Morin-Postel[2]	9	28
Cob Stenham[3]	–	11
Oliver Stocken	32	30
John Sunderland	28	28

Pension entitlements[4]

Defined benefit arrangements	Accrued entitlement at 31.12.01 £000 pa	Additional pension earned during year ended 31.12.01 £000 pa	Transfer value of increase in pension (less Directors' contributions) £000	Directors' contributions paid during year ended 31.12.01 £000
Ian Dyson	7	3	17	6
Jerry Fowden[2]	6	1	5	2
Mike Smith	4	1	17	6

Defined contribution arrangements	Contributions paid during year ended 31.12.01 £000	Contributions paid during year ended 31.12.00 £000
Jerry Fowden[2]	13	74
Mike Smith	225	209

Salary supplement	2001 £000	2000 £000
Ian Dyson	54	48

[1]appointed on 1 May 2001
[2]resigned on 26 April 2001
[3]resigned on 27 April 2000
[4]pension entitlements have been disclosed in accordance with the requirements of the Listing Rules of the Financial Services Authority and, in particular, details are given of the transfer value (less Directors' contributions) of the relevant increase in accrued benefit, calculated in accordance with Actuarial Guidance Note GN11 but making no deduction for any underfunding, as at the end of the period.

Service contracts and external directorships

The Chairman and the executive Directors have service contracts with one-year notice periods; there are no predetermined compensation provisions. Compensation on termination will be determined on an individual basis, taking into account age, length of service, the circumstances surrounding termination and an individual's duty to mitigate losses. The non-executive Directors do not have service contracts but are normally expected to retire from the Board after seven years' service.

Executive Directors are allowed to accept one external non-executive directorship and to retain the fees received.

Non-executive Directors

The Chairman and the executive Directors determine the non-executive Directors' fees which were increased to £28,500 pa with effect from 1 May 2001. The Chairmen of the Audit and Remuneration Committees receive additional fees of £4,000 pa. The Chairman and the non-executive Directors do not participate in any bonus scheme, any Company pension scheme, the executive share option scheme or the long term incentive plan.

Compensation for loss of office

Jerry Fowden was Managing Director of Rank's Holidays Division which, excluding Resorts USA, was sold in October 2000 for up to £700m. He resigned in April 2001 and received a lump sum gross payment by way of compensation for loss of office of £585,000. In addition, the Company contributed £166,000 into his unapproved retirement benefit scheme. He had a service contract with an initial two-year notice period, which would thereafter have reduced to a one-year notice period.

Jerry Fowden was entitled to retain options granted to him under the terms of the Company's executive share option schemes and in accordance with the Company's normal practice in similar circumstances to his departure, the Remuneration Committee exercised a discretion to waive the performance conditions attaching to the exercise of the options. In addition, if any conditional awards made under the Rank Group 2000 Long Term Incentive Plan vest in respect of the three-year performance period commencing 1 January 2000, Jerry Fowden will receive an award of Ordinary shares, pro-rated to his period of employment in the performance period.

On behalf of the Board

Alun Cathcart
Chairman

Peter Jarvis
Chairman of the Remuneration Committee

Corporate Governance

The policy of the Board is to manage the affairs of the Company in accordance with the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

Application of Principles of Good Governance

Directors

The Directors believe that it is essential that the Company should be led and controlled by an effective Board. To this end, regular Board meetings are held (not less than seven meetings in a year) and the Board receives a steady flow of information to enable it to discharge its duties. There is a formal schedule of matters reserved for the Board's decision, and all Directors have access to the advice and services of the Company Secretary and to independent professional advice, if required, at the Company's expense. Training programmes, including induction into the operations of the Company, are developed for newly appointed Directors. The current composition of the Board is detailed on page 23.

The Board has established the following Committees, each with a formal constitution, to facilitate its operations:

The Audit Committee

The Audit Committee meets not less than twice a year and assists the Board in reviewing the effectiveness of internal control systems. The Committee also reviews financial statements to be published externally before their submission to the Board, to ensure they present a fair assessment of the Group's position and prospects. It also authorises any change in accounting policies. The Committee meets at least annually with the auditors without executive management being present.

The Finance Committee

The Finance Committee is an executive committee to which certain specific authorities have been delegated by the Board, principally in respect of capital expenditure authorisation and financing of the Group.

The Nomination Committee

The Nomination Committee proposes Board appointments, both executive and non-executive, for approval by the Board. Decisions on Board appointments are a matter for the whole Board.

The Remuneration Committee

The Remuneration Committee meets not less than twice a year and is responsible for determining the remuneration packages of the Chairman, the executive Directors, and other members of the Executive Committee. Details of the Remuneration Committee's deliberations during the year are contained in the Remuneration Report on pages 34 to 37.

The composition of each of these Committees is given on page 23.

The Executive Committee

The Executive Committee is not a committee of the Board. Its role is to assist the Chief Executive in fulfilling his responsibilities for directing and promoting the profitable operation and development of the Group, consistent with the primary objective of creating long term shareholder value. It currently consists of the Chief Executive, Finance Director, Company Secretary, Group Human Resources Director and the Managing Directors of Divisions.

Directors' remuneration

Details of Directors' remuneration, and the process for its determination, are contained in the Remuneration Report.

Relations with shareholders

The Company maintains regular dialogue with its institutional shareholders and city analysts. Various presentations and visits are made throughout the year, and regular meetings are held with principal shareholders. All shareholders are welcome to attend the annual general meeting and private investors are encouraged to take advantage of the opportunity given to ask wide-ranging questions.

Accountability and audit

The means by which the Board applies the principles of accountability and audit are set out overleaf.

Compliance with Code provisions

The Company has throughout the year complied with the Code provisions set out in Section 1 of the Combined Code save as follows:

Code provision A.2.1

The Board has carefully considered the proposal that a senior independent director should be identified in the annual report and concluded that this would be inappropriate given that the Chairman of the Company and the Chairmen of the Audit and Remuneration Committees are already identified.

Risk management and internal control

The Board maintained the procedures necessary to comply with the requirements of the Combined Code relating to internal control as described in the September 1999 guidance "Internal Control: Guidance for Directors on the Combined Code" (Turnbull Report). In relation to Code provision D.2.1, the Board reports below on the procedures that have been applied in reviewing the effectiveness of the system of internal control.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The process has been in place during the year and up to the date of approval of the annual report and accounts. It is regularly reviewed by the Board and accords with the guidance set out in the Turnbull Report.

The Directors acknowledge that they are responsible for the Group's system of internal control, for setting policy on internal control and for reviewing the effectiveness of internal control. The role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Considerable importance is placed on maintaining a strong control environment. In particular, there is a simple organisational structure with clearly drawn lines of accountability and delegation of authority; adherence to specified codes of conduct is required at all times; and the Board actively promotes a culture of quality and integrity. A Group risk management policy has been produced and regular meetings of the Group Risk Management Committee take place, chaired by the Finance Director.

The Group Risk Management Committee directs and reviews risk management activities within the Group, so that the significant risks facing the Group can be reported to the Audit Committee and the Board. The Group-wide risk assessment process includes a review that covers all controls, including financial, operational and compliance controls and risk management. The report to the Audit Committee also provides information on the management and control of significant risks and monitors compliance with the Group risk management policy.

Detailed control procedures exist throughout the operations of the Group and compliance is monitored by management, internal auditors and, to the extent they consider necessary to support their audit report, external auditors. Gaming Division has a compliance function that monitors day to day adherence to control procedures. Additionally, the Group retains an internal audit function, which is outsourced to PricewaterhouseCoopers.

The Audit Committee has reviewed the effectiveness of the system of internal control during the year ended 31 December 2001. This has included consideration of the Group-wide risk assessment and the results of a self-certification of internal control exercise throughout the Group. The Audit Committee has also considered reports from internal and external auditors.

The Audit Committee has reported the results of its work to the Board. The Board has considered these reports when undertaking its review of the effectiveness of the Group's system of internal control.

Going concern

After reviewing the Group's budget for 2002 and its medium term plans, the Directors are confident that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the accounts.

Directors' Responsibilities in Relation to the Accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgements and estimates, and to state that all accounting standards which they consider to be applicable have been followed, save as disclosed in the notes to the accounts. The Directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to do so.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent Report of the Auditors to the Members of The Rank Group Plc

We have audited the financial statements which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the statement of Recognised Gains and Losses, the statement of Movement in Shareholders' Funds and the related notes. We have also audited the information set out in the tables within the Remuneration Report.

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable UK law and accounting standards are set out in the statement of Directors' Responsibilities in Relation to the Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, UK Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review, the Corporate Governance statement and the Remuneration Report.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

1 March 2002

Group Profit and Loss Account

for the year ended 31 December 2001

	Note	2001 Before exceptional items £m	2001 Exceptional items £m	2001 Total £m	2000 Before exceptional items £m	2000 Exceptional items £m	2000 Total £m
Turnover							
Continuing operations	1,2	**1,366.9**	**–**	**1,366.9**	1,404.1	–	1,404.1
Discontinued operations	1,2	**–**	**–**	**–**	389.3	–	389.3
	1,2	**1,366.9**	**–**	**1,366.9**	1,793.4	–	1,793.4
Operating profit							
Continuing operations	1,2	**209.7**	**(37.5)**	**172.2**	203.1	(43.5)	159.6
Discontinued operations	1,2	**–**	**–**	**–**	59.7	–	59.7
Group operating profit	1,2	**209.7**	**(37.5)**	**172.2**	262.8	(43.5)	219.3
Share of operating profit in joint ventures and associates							
Joint ventures	12	**6.3**	**–**	**6.3**	5.6	–	5.6
Associated undertakings	13	**–**	**–**	**–**	12.1	(13.8)	(1.7)
		216.0	**(37.5)**	**178.5**	280.5	(57.3)	223.2
Non-operating items							
Net profit on disposal of fixed assets – continuing	3	**–**	**12.3**	**12.3**	–	–	–
Loss on disposal of continuing operations	3	**–**	**(0.7)**	**(0.7)**	–	(0.6)	(0.6)
Loss on disposal of discontinued operations	3	**–**	**(1.1)**	**(1.1)**	–	(448.9)	(448.9)
Net loss on disposal of fixed assets in joint ventures – continuing	3	**–**	**(0.6)**	**(0.6)**	–	–	–
Profit (loss) before interest		**216.0**	**(27.6)**	**188.4**	280.5	(506.8)	(226.3)
Net interest payable and similar charges							
Group	4	**(24.3)**	**–**	**(24.3)**	(67.4)	(20.3)	(87.7)
Joint ventures	12	**(3.6)**	**–**	**(3.6)**	(3.5)	–	(3.5)
Associated undertakings	13	**–**	**–**	**–**	(23.6)	–	(23.6)
		(27.9)	**–**	**(27.9)**	(94.5)	(20.3)	(114.8)
Profit (loss) on ordinary activities before tax		**188.1**	**(27.6)**	**160.5**	186.0	(527.1)	(341.1)
Tax on profit (loss) on ordinary activities	5	**(32.3)**	**–**	**(32.3)**	(42.0)	65.7	23.7
Profit (loss) on ordinary activities after tax		**155.8**	**(27.6)**	**128.2**	144.0	(461.4)	(317.4)
Equity minority interests	24	**(1.9)**	**–**	**(1.9)**	(3.0)	–	(3.0)
Profit (loss) for the financial year		**153.9**	**(27.6)**	**126.3**	141.0	(461.4)	(320.4)
Dividends and other appropriations							
Preference	7	**(21.0)**	**–**	**(21.0)**	(21.0)	–	(21.0)
Ordinary	7	**(74.5)**	**–**	**(74.5)**	(69.1)	–	(69.1)
Transfer to (from) reserves	23	**58.4**	**(27.6)**	**30.8**	50.9	(461.4)	(410.5)
Basic and diluted earnings (loss) per Ordinary share	8	**22.5p**	**(4.7)p**	**17.8p**	17.3p	(66.4)p	(49.1)p

There is no difference between the result as disclosed in the profit and loss account and that on an unmodified historical cost basis.

Balance Sheets

at 31 December 2001

	Note	Group 2001 £m	Group 2000 (as restated – note 1) £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Intangible assets	9	**7.4**	7.6	**–**	–
Tangible assets	10	**726.0**	775.8	**–**	–
Investments					
Subsidiary undertakings	11	**–**	–	**1,697.0**	1,697.0
Joint ventures					
Share of gross assets		**66.8**	70.2	**–**	–
Share of gross liabilities		**(50.7)**	(54.6)	**–**	–
	12	**16.1**	15.6	**–**	–
Associated undertakings	13	**0.8**	0.7	**–**	–
Other	14	**48.3**	40.0	**2.5**	0.6
		798.6	839.7	**1,699.5**	1,697.6
Current assets					
Stocks	15	**69.4**	65.2	**–**	–
Debtors (amounts falling due within one year)	16	**379.4**	389.7	**–**	–
Debtors (amounts falling due after more than one year)	16	**130.8**	122.8	**–**	–
Investments	17	**6.3**	11.7	**–**	–
Cash and deposits	17	**117.6**	156.0	**–**	0.3
		703.5	745.4	**–**	0.3
Creditors (amounts falling due within one year)					
Loan capital and borrowings	18	**(7.9)**	(42.6)	**–**	–
Other	20	**(363.7)**	(367.7)	**(435.6)**	(340.5)
		(371.6)	(410.3)	**(435.6)**	(340.5)
Net current assets (liabilities)		**331.9**	335.1	**(435.6)**	(340.2)
Total assets less current liabilities		**1,130.5**	1,174.8	**1,263.9**	1,357.4
Creditors (amounts falling due after more than one year)					
Loan capital and borrowings	18	**(364.1)**	(445.0)	**–**	–
Other	20	**(79.2)**	(48.6)	**–**	–
		(443.3)	(493.6)	**–**	–
Provisions for liabilities and charges	21	**(87.8)**	(109.0)	**(2.2)**	(2.5)
		599.4	572.2	**1,261.7**	1,354.9
Capital and reserves					
Called up share capital	23	**104.6**	104.6	**104.6**	104.6
Share premium account	23	**8.5**	8.5	**8.5**	8.5
Capital redemption reserve	23	**24.8**	24.8	**24.8**	24.8
Other reserves	23	**446.3**	418.4	**1,123.8**	1,217.0
Shareholders' funds		**584.2**	556.3	**1,261.7**	1,354.9
Equity interests		**359.8**	334.1	**1,037.3**	1,132.7
Non-equity interests		**224.4**	222.2	**224.4**	222.2
Equity minority interests	24	**15.2**	15.9	**–**	–
		599.4	572.2	**1,261.7**	1,354.9

These accounts were approved by the Board on 1 March 2002 and signed on its behalf by:
Alun Cathcart, Chairman
Ian Dyson, Finance Director

Group Cash Flow Statement

for the year ended 31 December 2001

	Note	2001 £m	2000 £m
Net cash inflow from operating activities	25	**266.4**	358.0
Distributions from joint ventures and associated undertakings		**2.4**	2.6
Returns on investment and servicing of finance			
Interest received		**7.5**	8.3
Interest paid		**(49.2)**	(96.5)
Dividends paid to preference shareholders		**(18.8)**	(18.8)
Dividends paid to minority shareholders in subsidiary undertakings		**(3.0)**	(1.6)
		(63.5)	(108.6)
Taxation (paid) received (net)		**(15.4)**	12.8
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(103.3)**	(144.6)
Purchase of investments		**(12.0)**	(6.2)
Sale of fixed assets and assets held for disposal		**64.3**	20.1
		(51.0)	(130.7)
Acquisitions and disposals			
Purchase of subsidiaries		**–**	(25.9)
Cash acquired with subsidiaries		**–**	0.2
Sale of businesses and investments		**3.8**	1,219.3
Cash and overdrafts disposed of with businesses		**–**	(6.4)
Investment in joint ventures and associated undertakings		**(2.4)**	(13.4)
		1.4	1,173.8
Ordinary dividends paid		**(72.2)**	(83.7)
Cash inflow before use of liquid resources and financing		**68.1**	1,224.2
Management of liquid resources	26, 27	**5.4**	1.1
Financing			
Purchase of Ordinary share capital		**–**	(304.3)
Changes in debt and lease financing			
Debt due within one year:			
repayment of US dollar private placements		**(31.9)**	(19.7)
repayment of other short term loans and borrowings		**–**	(133.2)
net repayment on sterling syndicated facilities		**–**	(397.8)
net repayment on US dollar syndicated facilities		**–**	(200.6)
Debt due after more than one year:			
repayment of US dollar private placements		**(40.8)**	(74.8)
net movements on other long term facilities		**(43.8)**	(3.1)
Capital element of finance lease rental payments		**(0.8)**	(19.4)
Net cash outflow from financing	26, 27	**(117.3)**	(1,152.9)
(Decrease) increase in cash	26, 27	**(43.8)**	72.4

Group Recognised Gains and Losses

for the year ended 31 December 2001

	2001 £m	2000 £m
Profit (loss) for the financial year	**126.3**	(320.4)
Currency translation differences on foreign currency net investments	**(1.9)**	(5.1)
Tax on exchange adjustments offset in reserves	**(3.2)**	(17.9)
Total recognised gains and losses for the year	**121.2**	(343.4)

Movements in Shareholders' Funds

for the year ended 31 December 2001

	2001 £m	2000 £m
Profit (loss) for the financial year	**126.3**	(320.4)
Dividends payable excluding provision for redemption premium	**(93.3)**	(87.9)
Retained profit (loss) for the year	**33.0**	(408.3)
Other recognised gains and losses (net)	**(5.1)**	(23.0)
Purchase of Ordinary share capital	**–**	(304.3)
Goodwill realised upon disposal	**–**	108.1
Net movement in shareholders' funds	**27.9**	(627.5)
Opening shareholders' funds at 1 January	**556.3**	1,183.8
Closing shareholders' funds at 31 December	**584.2**	556.3

Accounting Policies

1 Basis of preparation
The accounts are prepared under the historical cost convention, and comply with applicable accounting standards on a basis consistent with the previous year except for the changes detailed below. The Group's profit and loss account and balance sheet include the accounts of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its joint ventures and associated undertakings. The profits or losses of subsidiary undertakings acquired or sold during the period are included as from or up to the dates on which control passed. All business combinations are accounted for using the acquisition accounting method.

Changes in accounting policy
Financial Reporting Standard ("FRS") 17 "Retirement Benefits" was issued in November 2000 but will not require full implementation for the Group and Company until the year ended 31 December 2003. Prior to this, phased transitional disclosures are required from 31 December 2001. The disclosures required are presented in note 29.

In accordance with the requirements of FRS 18 "Accounting Policies", management have reviewed the accounting policies currently adopted by the Group and consider them to be the most appropriate against the objectives of relevance, reliability, comparability and understandability. As a consequence of the review of Group accounting policies, the accounting treatment and recognition of contract advances within Deluxe Film has been amended to ensure a consistency of treatment with Deluxe Video. Within Deluxe Film, advances payable under a contract were previously recognised on cash payment but are now accrued for in full on entering into a contract. This brings the treatment in Deluxe Film in line with Deluxe Video. This change in accounting policy has been implemented retrospectively as required by FRS 18 with a prior year adjustment of £26.4m made to debtors and in creditors. This change has no impact on the profit and loss account.

FRS 19 "Deferred Tax" will be adopted in the 2002 financial year.

2 Foreign currency
Revenues, costs and cash flows of overseas undertakings are included in the Group profit and loss account at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date except where a forward exchange contract has been arranged when the contracted rate is used. Exchange differences on the retranslation of opening net assets and results for the period of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings and are reported in the statement of recognised gains and losses. Other gains and losses arising from foreign currency transactions, including trading, are included in the consolidated profit and loss account.

The principal exchange rates affecting the Group were:

	2001		2000	
	Year end	**Average**	Year end	Average
US dollar	**1.46**	**1.43**	1.49	1.50
Canadian dollar	**2.32**	**2.23**	2.24	2.21
Euro	**1.63**	**1.61**	1.59	1.66

3 Income recognition
Turnover consists of sales of goods and services and is generally recognised as goods are shipped or services are rendered. Turnover for casinos includes the gaming win before deduction of gaming duty.

4 Contract advances
The Deluxe businesses enter into contracts with major customers that span several years. As part of these contracts, Deluxe provides advance cash payments to the customers. Both Deluxe Video and Deluxe Film capitalise the total commitment payable under each contract within debtors at the date of the agreement and record a corresponding liability on the balance sheet for any outstanding amounts. Within Deluxe Video capitalised contract costs are amortised against revenue on a straight line basis over the life of the contract. Within the Deluxe Film businesses, contract advances are amortised on the basis of estimated total footage over the life of the contract, unless the terms of the contract indicate an alternative treatment would be more appropriate.

5 Goodwill
Goodwill arising on acquisitions made before 31 December 1997 has been written off directly to reserves. Goodwill arising on acquisitions subsequent to 31 December 1997 has been capitalised and is being amortised on a straight line basis over its useful economic life.

6 Stocks
Stocks include work in progress and are valued at the lower of cost (including an appropriate proportion of overhead) and net realisable value.

7 Tangible fixed assets
Freehold properties are depreciated on a straight line basis over 100 years or their useful life, if less. Leased properties are depreciated over the lesser of 100 years, their useful life or the term of the lease. No depreciation is provided on freehold land. Expenditure on major refurbishment of properties is amortised over periods of between three and 15 years. Other fixed assets are depreciated mainly at rates between 5% and 33% per annum on a straight line basis.

Interest costs that are directly attributable to the construction of a tangible fixed asset are capitalised as part of the cost of the asset concerned. Pre-opening costs are expensed as incurred.

Casino properties are depreciated over the useful economic life of the physical properties to their residual values. Both the initial carrying amount and residual value take into account the trading potential of the property with the benefit of the casino licences. In view of the high residual values, casino properties are reviewed annually for potential impairment.

8 Leased assets
Assets acquired under finance leases are included in tangible fixed assets. Depreciation is provided at rates designed to write-off the cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Operating lease payments are charged to the profit and loss account as incurred.

9 Pensions
The pension costs as calculated under SSAP 24 relating to the UK defined benefit scheme are assessed in accordance with the advice of a qualified actuary using the attained age method. Actuarial surpluses and deficiencies are amortised on a straight line basis over the expected average remaining service lives of the employees. The pension costs relating to the UK defined contribution scheme represent the contributions payable by the Group. Overseas schemes are accounted for in accordance with local conditions and practice such that the costs are charged against profits on a systematic basis over the service lives of the employees.

10 Taxation
Current taxation is applied to taxable profits at the rates ruling in the relevant country. Deferred taxation is provided in respect of timing differences to the extent that it is probable that a liability will arise in the foreseeable future. Prior to its abolition, Advance Corporation Tax on dividends paid was set off against UK current liabilities and deferred tax provisions to the extent that it was considered recoverable.

11 Financial instruments
Derivative instruments that may be utilised by the Group are forward interest rate swaps and caps, cross currency swaps, forward starting swaps, forward rate agreements, interest rate swaps, interest rate swap options, forward foreign exchange contracts and currency options.

Derivative instruments that are currently utilised by the Group are interest rate swaps, forward foreign exchange contracts and currency swaps. These instruments are used to manage interest rate and foreign exchange risk.

The forward foreign exchange contracts are used to hedge future transaction flows. The resulting gains and losses are recognised as they arise and offset against gains and losses in the related underlying exposure.

During 2001, the Group entered into a series of interest rate swaps with banks, the effect of which has been to replace part of the Group's fixed interest rate exposure with a floating rate exposure on an equivalent amount of notional debt.

The interest rate differentials from interest rate swaps used to manage the amounts and periods for which interest rates on underlying debt is fixed are recorded through an adjustment of net interest payable.

The underlying principal amounts of currency swaps are revalued at the exchange rates as at the balance sheet date and included in current asset investments or creditors to the extent that they are not related to underlying debt. The interest rate element of these contracts is recognised as part of net interest payable over the term of the agreement.

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are determinable monetary amounts, and the Group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

Notes to the Accounts

1 SEGMENTAL INFORMATION

	Turnover		Profit (loss) before exceptional items		Profit (loss) after exceptional items		Capital employed (c)	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Analysis by division (a)								
Gaming	**437.1**	442.6	**95.7**	82.4	**95.7**	81.9	**553.5**	538.4
Hard Rock	**248.4**	260.2	**38.0**	46.3	**38.0**	46.3	**776.4**	759.1
Deluxe	**634.6**	651.1	**74.1**	73.3	**36.6**	28.6	**547.8**	625.7
US Holidays	**46.8**	50.2	**9.5**	10.0	**9.5**	10.0	**77.9**	79.2
Central costs and other	**–**	–	**(7.6)**	(8.9)	**(7.6)**	(7.2)	**–**	–
Continuing operations	**1,366.9**	1,404.1	**209.7**	203.1	**172.2**	159.6	**1,955.6**	2,002.4
Discontinued operations (b)	**–**	389.3	**–**	59.7	**–**	59.7	**–**	–
	1,366.9	1,793.4	**209.7**	262.8	**172.2**	219.3	**1,955.6**	2,002.4
Share of investments (d)								
Universal Studios Escape			**–**	(11.5)	**–**	(12.2)	**–**	–
Other			**2.7**	2.1	**2.7**	(11.0)	**65.2**	56.3
			2.7	(9.4)	**2.7**	(23.2)	**65.2**	56.3
Total capital employed							**2,020.8**	2,058.7
Non-operating items (net)					**9.9**	(449.5)		
Group interest payable and other similar charges			**(24.3)**	(67.4)	**(24.3)**	(87.7)		
Profit (loss) on ordinary activities before tax			**188.1**	186.0	**160.5**	(341.1)		

(a) Inter-segmental turnover is not material.
(b) Discontinued operations comprise Odeon Cinemas, Pinewood Studios, Tom Cobleigh and UK Holidays.
(c) Capital employed comprises net operating assets plus purchased goodwill.
(d) Share of investments' profit is defined as share of profit before tax. Share of investments' capital employed is the carrying value in the Group's balance sheet plus purchased goodwill. Investments comprise joint ventures, associates and other investments.

1 SEGMENTAL INFORMATION CONTINUED

	Depreciation		Investment expenditure		Net cash flow before financing		Net assets	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Analysis by division								
Gaming	**41.3**	46.5	**48.5**	49.5	**85.4**	105.2	**396.9**	381.3
Hard Rock	**10.1**	11.7	**20.0**	13.9	**24.7**	36.5	**175.3**	161.7
Deluxe	**28.1**	35.1	**33.5**	36.2	**137.7**	49.8	**308.8**	395.9
US Holidays	**0.8**	0.6	**1.3**	1.7	**13.3**	13.5	**46.8**	48.8
Central costs and other	**0.3**	0.3	**–**	(1.9)	**(25.2)**	(28.2)	**–**	–
Continuing operations	**80.6**	94.2	**103.3**	99.4	**235.9**	176.8	**927.8**	987.7
Discontinued operations	**–**	39.8	**–**	73.0	**–**	1,061.0	**–**	–
	80.6	134.0	**103.3**	172.4	**235.9**	1,237.8	**927.8**	987.7
Investments								
Universal Studios Escape			**–**	13.4	**–**	168.8	**–**	–
Other			**14.4**	6.2	**(14.5)**	(6.2)	**65.2**	56.3
			14.4	19.6	**(14.5)**	162.6	**65.2**	56.3
			117.7	192.0	**221.4**	1,400.4	**993.0**	1,044.0
Interest paid (net)					**(41.7)**	(88.2)		
Tax and dividends					**(109.4)**	(90.0)	**(100.6)**	(76.7)
Other non-operating assets (net)							**(52.3)**	(82.8)
Acquired debt and other non-cash items			**–**	(2.1)	**(2.2)**	2.0		
Goodwill							**7.4**	7.6
Net debt							**(248.1)**	(319.9)
			117.7	189.9	**68.1**	1,224.2	**599.4**	572.2

	Turnover by origin		Operating profit by origin – Before exceptional items		Operating profit by origin – After exceptional items		Net assets	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Geographical analysis								
UK	**529.4**	531.3	**95.0**	77.7	**85.9**	79.6	**453.4**	481.7
North America	**710.2**	743.6	**95.6**	103.9	**74.5**	59.7	**389.3**	430.9
Rest of the World	**127.3**	129.2	**19.1**	21.5	**11.8**	20.3	**85.1**	75.1
Continuing operations	**1,366.9**	1,404.1	**209.7**	203.1	**172.2**	159.6	**927.8**	987.7

Turnover by destination is not materially different from turnover by origin.

2 TURNOVER AND OPERATING PROFIT

	2001 Continuing operations £m	2001 Discontinued operations £m	2001 Total £m	2000 Continuing operations £m	2000 Discontinued operations £m	2000 Total £m
Turnover	**1,366.9**	**–**	**1,366.9**	1,404.1	389.3	1,793.4
Cost of sales	**(991.0)**	**–**	**(991.0)**	(1,060.2)	(250.9)	(1,311.1)
Gross profit	**375.9**	**–**	**375.9**	343.9	138.4	482.3
Distribution costs	**(42.2)**	**–**	**(42.2)**	(21.5)	(68.6)	(90.1)
Administrative expenses	**(170.3)**	**–**	**(170.3)**	(171.8)	(8.9)	(180.7)
Other operating income	**8.8**	**–**	**8.8**	9.0	(1.2)	7.8
Operating profit	**172.2**	**–**	**172.2**	159.6	59.7	219.3
Exceptional items included above are:						
In cost of sales	**(26.2)**	**–**	**(26.2)**	(41.3)	–	(41.3)
In administrative expenses	**(11.3)**	**–**	**(11.3)**	(2.2)	–	(2.2)

	2001 £m	2000 £m
Operating profit is stated after charging the following items:		
In normal trading		
Depreciation of tangible fixed assets	**80.6**	134.0
Operating lease payments – land and buildings	**47.4**	71.7
Operating lease payments – plant and machinery	**7.3**	2.9
In exceptional items		
Restructuring charges	**8.9**	13.6
Impairment of assets	**28.6**	29.9

The restructuring charges in 2001 relate to the restructuring of the Deluxe Video business in Europe. This involved the closure of duplication plants in France and Holland and the restructuring of operations in the UK and Germany. The exceptional charge of £8.9m comprises costs associated with the closure of facilities of £4.7m, redundancy costs of £2.8m, and asset write-offs of £1.4m.

In August 2001, the Deluxe Video businesses in the US and Europe were combined under the US management team. As part of the combination of the businesses, a decision was taken to consolidate information systems and support arrangements. As a consequence of this decision an exceptional charge of £28.6m has been recognised in the year, primarily relating to the impairment of the carrying value of information systems.

During the year the Company's auditors, PricewaterhouseCoopers, earned the following fees:

	2001 £m	2000 £m
Audit fees		
UK	**0.5**	0.4
Overseas	**0.5**	0.5
	1.0	0.9
Non-audit services		
UK	**1.7**	2.6
Overseas	**0.2**	0.1
	1.9	2.7
	2.9	3.6
Non-audit services were as follows:		
Transaction services, stock exchange and other audit related work	**1.6**	1.6
Taxation advice	**0.2**	0.4
Consultancy and advisory services	**0.1**	0.7
	1.9	2.7

The auditors' remuneration for the Company was £50,000 (2000 – £50,000).

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally in the areas of transaction services, stock exchange transactions and tax advice. The Group's policy is, where appropriate, that work is put out to competitive tender. The Audit Committee monitors the relationship with PricewaterhouseCoopers, including the level of non-audit fees.

3 NON-OPERATING ITEMS

	2001 £m	2000 £m
Net profit on disposal of fixed assets	**12.3**	–
Loss (including provision for loss) on disposal of continuing operations	**(0.7)**	(0.6)
Loss on disposal of discontinued operations (after deducting goodwill previously written off of £Nil (2000 – £108.1m))	**(1.1)**	(448.9)
Net loss on disposal of fixed assets in joint ventures	**(0.6)**	–
Non-operating items before tax	**9.9**	(449.5)

The exceptional tax credit attributable to non-operating items is £Nil (2000 – £65.7m).

On 6 June 2001, Deluxe completed the sale and leaseback of the plant and machinery at the video duplication facility in Arkansas for proceeds of £27.3m. On 28 December 2001, Deluxe also completed the sale and leaseback of the real estate in Arkansas for proceeds of £21.8m. The two transactions taken together realised a profit on disposal of £12.3m.

4 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £m	2000 £m
Interest payable on bank loans and overdrafts	**0.7**	26.7
Interest payable on other loans	**32.2**	45.1
Finance charges on finance leases	**0.4**	1.8
Release of discount on provisions	**1.3**	1.8
Interest payable and other similar charges	**34.6**	75.4
Interest receivable from deposits and current asset investments	**(7.5)**	(8.0)
Net profit on redemption of fixed rate debt	**(2.8)**	–
	24.3	67.4
Exceptional loss on prepayment of private placement debt	**–**	20.3
	24.3	87.7

5 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2001 Before exceptional items £m	2001 Exceptional items £m	2001 Total £m	2000 Before exceptional items £m	2000 Exceptional items £m	2000 Total £m
UK corporation tax						
Current	**11.4**	**–**	**11.4**	41.3	(52.7)	(11.4)
Prior year	**(0.3)**	**–**	**(0.3)**	(11.0)	(13.0)	(24.0)
	11.1	**–**	**11.1**	30.3	(65.7)	(35.4)
Overseas tax						
Current	**18.3**	**–**	**18.3**	11.7	–	11.7
Prior year	**2.0**	**–**	**2.0**	–	–	–
	20.3	**–**	**20.3**	11.7	–	11.7
Taxation on share of profits of associated undertakings and joint ventures	**0.9**	**–**	**0.9**	–	–	–
	32.3	**–**	**32.3**	42.0	(65.7)	(23.7)

UK corporation tax on the profits of the Company and its UK subsidiaries for the year has been provided at 30.0% (2000 – 30.0%).

6 PROFIT ATTRIBUTABLE TO THE PARENT COMPANY

The profit for the financial year in the accounts of The Rank Group Plc was £0.1m (2000 – loss of £687.3m). As allowed by S. 230 Companies Act 1985, no profit and loss account is presented in respect of The Rank Group Plc.

7 DIVIDENDS

	2001 £m	2000 £m
Convertible Redeemable Preference shares		
Dividends payable for the period	**18.8**	18.8
Provision for redemption premium	**2.2**	2.2
	21.0	21.0
Ordinary shares		
Interim declared of 4.2p per share (2000 – 4.0p)	**24.8**	27.8
Final proposed of 8.4p per share (2000 – 8.0p)	**49.7**	47.2
Release of prior year accrual resulting from share purchase	**–**	(5.9)
	74.5	69.1

8 EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year, excluding those held in the employee benefit trust which are treated as cancelled.

The Group has two categories of dilutive potential Ordinary shares – those share options granted to employees where the exercise price is less than the average price of the Company's Ordinary shares during the year and the Company's Convertible Preference shares. These are principally at present anti-dilutive.

	2001			2000		
	Before exceptional items	**Exceptional items**	**Total**	Before exceptional items	Exceptional items	Total
Basic and diluted earnings (£m)	**132.9**	**(27.6)**	**105.3**	120.0	(461.4)	(341.4)
Weighted average number of Ordinary shares (m)			**590.7**			695.6
Basic and diluted earnings (loss) per Ordinary share	**22.5p**	**(4.7)p**	**17.8p**	17.3p	(66.4)p	(49.1)p

Earnings per share before exceptional items has been calculated to show the impact of exceptional items as these can have a distorting effect on earnings and therefore warrant separate consideration.

9 INTANGIBLE FIXED ASSETS

	Cost £m	Amortisation £m	Net book amount £m
Balances at 31 December 2000	8.2	(0.6)	7.6
Currency translation adjustment	0.3	–	0.3
Amortisation charge for the year	–	(0.5)	(0.5)
Balances at 31 December 2001	**8.5**	**(1.1)**	**7.4**

Intangible fixed assets consists of goodwill arising on acquisitions since 1 January 1998. It is being amortised straight line over 20 years and the charge for the year was £0.5m (2000 – £0.4m).

10 TANGIBLE FIXED ASSETS

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Payments on account and assets in course of construction £m	Total £m
Group				
Cost at 31 December 2000	618.6	602.3	23.4	1,244.3
Currency translation adjustment	2.7	5.3	(0.8)	7.2
Additions	16.3	64.1	18.9	99.3
Disposals	(73.7)	(93.0)	–	(166.7)
Transfers	5.8	1.2	(7.0)	–
Cost at 31 December 2001	**569.7**	**579.9**	**34.5**	**1,184.1**
Depreciation at 31 December 2000	143.7	324.8	–	468.5
Currency translation adjustment	0.4	2.9	–	3.3
Provision for impairment	–	26.7	–	26.7
Disposals	(46.4)	(74.6)	–	(121.0)
Depreciation for the year	11.3	69.3	–	80.6
Transfers	5.1	(5.1)	–	–
Depreciation at 31 December 2001	**114.1**	**344.0**	**–**	**458.1**
Net book amount at 31 December 2001	**455.6**	**235.9**	**34.5**	**726.0**
Net book amount at 31 December 2000	474.9	277.5	23.4	775.8

(a) Land with a net book amount of £72.7m (2000 – £70.4m) is not depreciated. The net book amount of tangible assets for the Group includes £3.2m (2000 – £7.2m) interest capitalised.

(b) The book amounts for fixtures, fittings, plant and machinery include the following amounts in respect of assets held under finance leases: cost £6.0m (2000 – £5.8m), depreciation £2.8m (2000 – £2.6m), net book amount £3.2m (2000 – £3.2m). The depreciation charge in the year in respect of these assets was £1.2m (2000 – £3.0m).

(c) The impairment charge during the year relates to the write down of the Deluxe US and European information systems. The European system has been written down by reference to a value in use calculation using a discount rate of 8%. The US system has been written down to net realisable value.

	2001 £m	2000 £m
The net book amount of land and buildings comprises:		
Freeholds	**261.5**	263.2
Long leases (over 50 years unexpired)	**27.6**	114.5
Short leases	**166.5**	97.2
	455.6	474.9

11 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Company		
	Shares at cost £m	Provisions £m	Net book amount £m
Balances at 31 December 2000 and 31 December 2001	**2,780.0**	**(1,083.0)**	**1,697.0**

Details of principal subsidiary undertakings are given on page 69.

12 INTERESTS IN JOINT VENTURES (UNLISTED)

	Participating interests at cost £m
Balances at 31 December 2000	15.6
Additions	1.7
Share of profits after distributions	(1.2)
Balances at 31 December 2001	**16.1**

The Group's interests in joint ventures comprise BL Rank Properties Limited ("BLRP") and Entertainment Transportation Specialists, Inc. ("ETS"). The Group owns 100% of the "A" shares in BLRP which constitute 50% of the voting share capital with the balance held by The British Land Company PLC. The principal activity of the BLRP group is property investment. The Group now owns 50% of the common stock of ETS, following the acquisition of a further 25% of the common stock for a cash consideration of $2.4m (£1.7m) on 1 April 2001. ETS is a Californian corporation whose principal activity is the management of film studios' inventory of film prints and the physical distribution of release prints and trailers.

	2001 £m	2000 £m
Share of retained profit for the period		
Share of profits less losses after taxation	**1.2**	2.1
Dividends and distributions receivable by the Group	**(2.4)**	(2.5)
Amounts retained attributable to the Group	**(1.2)**	(0.4)

13 INTERESTS IN ASSOCIATED UNDERTAKINGS (UNLISTED)

	Group £m
Balances at 31 December 2000	0.7
Additions	0.7
Provision for impairment	(0.6)
Balances at 31 December 2001	**0.8**

On 1 November 2001, for a cash consideration of Canadian $1.5m (£0.7m), the Group acquired 33⅓% of the common stock of The Lab in Toronto, Inc ("The Lab") and was granted options to acquire the remaining 66⅔% of the common stock. The Lab is a film laboratory in Toronto that principally offers developing services to the feature film, television and commercial markets.

	2001 £m	2000 £m
Share of retained profit for the period		
Share of operating profit	**–**	12.1
Share of net interest payable	**–**	(23.6)
Exceptional write-off of restructuring expenses	**–**	(0.7)
Provision for impairment	**(0.6)**	(13.1)
Retained loss before tax	**(0.6)**	(25.3)

Prior year comparatives relate to the Group's investment in Universal Studios Escape which was sold during 2000.

14 OTHER INVESTMENTS

	Group £m	Company £m
Balances at 31 December 2000	40.0	0.6
Currency translation adjustment	(3.6)	–
Additions	11.9	1.9
Balances at 31 December 2001	**48.3**	**2.5**

Other investments comprises £22.4m (2000 – £26.6m) in relation to the Group's investment in Universal Studios Japan, £21.1m (2000 – £12.8m) in relation to the Group's investment in the Universal Rank Hotel partnerships, £2.3m (2000 – £Nil) in relation to the Group's investment in the Hard Rock hotel partnership in Chicago and £2.5m (2000 – £0.6m) in respect of 1,224,389 (2000 – 324,389) Ordinary shares in The Rank Group Plc held at cost by The Rank Group Employee Benefit Trust.

Dividends on the shares held by the Trust have been waived by the trustees with the exception of one penny in total. The Trust may make such investments in the shares of the Company or otherwise as the trustee or trustees may determine to provide benefits to any eligible employee. The benefits may be provided in the form of shares, cash or otherwise, although any share related benefit will be provided in accordance with an appropriate employee share scheme or bonus scheme of the Company.

15 STOCKS

	Group	
	2001 £m	2000 £m
Raw materials and consumables	**29.0**	21.5
Work in progress	**3.3**	3.6
Finished goods and goods for resale	**28.7**	37.8
Completed properties for resale	**8.4**	2.3
	69.4	65.2

16 DEBTORS

	Group	
	2001 £m	2000 (as restated) £m
Amounts falling due within one year		
Trade debtors	**150.6**	152.1
Other debtors	**33.9**	31.8
Assets held for disposal	**19.1**	21.1
Deferred consideration receivable	**10.4**	11.9
Prepayments and accrued income	**43.1**	43.6
Instalment sale debtors and notes receivable	**5.1**	5.7
Advance contract payments	**117.2**	123.5
	379.4	389.7
Amounts falling due after more than one year		
Other debtors	**9.2**	12.1
Prepayments and accrued income	**1.3**	0.6
Instalment sale debtors and notes receivable	**36.7**	42.1
Advance contract payments	**83.6**	68.0
	130.8	122.8

Further details on the movement in advance contract payments are provided below:

	Group £m
Balance at 31 December 2000 (as restated – see note 1)	191.5
Currency translation adjustment	0.8
Amortisation charge for the year	(71.2)
Additions	79.7
Balance at 31 December 2001	**200.8**

17 CASH, DEPOSITS AND CURRENT ASSET INVESTMENTS

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Cash, current accounts and overnight deposits	**69.1**	61.8	**–**	0.3
Term deposits	**48.5**	94.2	**–**	–
	117.6	156.0	**–**	0.3
Current asset investments	**6.3**	11.7	**–**	–
Cash, deposits and current asset investments (notes 26, 27)	**123.9**	167.7	**–**	0.3

Current asset investments comprise amounts invested in cash and fixed deposit funds operated by external fund managers. The investments can be converted into cash within 24 hours. The funds are placed with counterparties with strong credit ratings. Cash, deposits and current asset investments are receiving floating rates of interest in their currency of denomination, with 77% of the total being held in sterling, 17% in euros, 5% in US dollars and the balance in a mix of other currencies.

18 LOAN CAPITAL AND BORROWINGS

	Group	
	2001 £m	2000 £m
Bank overdrafts	**6.5**	9.3
Other borrowings repayable:		
Within one year or on demand	**1.4**	33.3
Between one and two years	**1.0**	0.8
Between two and five years	**137.8**	141.1
In five years or more	**225.3**	266.3
In five years or more – by instalments	**–**	36.8
	365.5	478.3
Total	**372.0**	487.6
Unsecured	**369.4**	485.6
Obligations under finance leases	**2.6**	2.0
Total	**372.0**	487.6
Amounts due within one year or on demand	**7.9**	42.6
Amounts due after more than one year	**364.1**	445.0
Loan capital and borrowings (notes 26, 27)	**372.0**	487.6

The Group had the following undrawn committed borrowing facilities available at 31 December 2001 and 2000:

	2001 £m	2000 £m
Expiring within one year	**–**	600.0
Expiring after more than two years	**250.0**	–
Loan capital and borrowings	**250.0**	600.0

The analysis of other borrowings repayable above includes obligations under finance leases, of which £1.1m (2000 – £1.1m) expire within one year, £1.0m (2000 – £0.7m) expire between one and two years and £0.5m (2000 – £0.2m) expire between two and five years.

18 LOAN CAPITAL AND BORROWINGS CONTINUED

Borrowings shown above include:

(a) borrowings repayable by instalments, any instalment of which falls due after five years, totalling £Nil (2000 – £75.6m), with an average rate of interest payable of Nil% (2000 – 9.83%);
(b) £125m 7.25% eurosterling bonds redeemable at par in 2008 (issued 1998);
(c) £137m US$200m 6.75% Yankee bonds redeemable at par in 2004 (issued 1997);
(d) £69m US$100m 6.375% Yankee bonds redeemable at par in 2008 (issued 1998); and
(e) £32m US$45.8m 7.125% Yankee bonds redeemable at par in 2018 (issued 1998).

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity, and to maintain committed facilities sufficient to cover seasonal peak anticipated borrowing requirements.

The Company had no borrowings at 31 December 2001 (2000 – £Nil).

The finance costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. Such costs include the costs of issue, any discount to face value arising on issue and any premium payable on maturity.

19 FINANCIAL INSTRUMENTS

A description of the policies relating to financial instruments is set out in the Operating and Financial Review on page 31, and also in the Accounting Policies on page 47. Short term debtors and creditors have been excluded from all the following disclosures other than within the currency risk disclosures.

(a) Interest risk management
Financial liabilities

Some 58% of the Group's gross borrowings is at fixed rates of interest with a weighted average interest rate of 7.1% (2000 – 7.4%) and a weighted average term of 5.9 years (2000 – 6.8 years). At 31 December 2001, the Group's net debt was predominantly denominated in US dollars.

After taking account of interest rate and currency rate swaps, the currency and interest rate exposure of gross borrowings as at 31 December 2001 was:

			Fixed rate borrowings		
2001	**Gross borrowings £m**	**Floating rate borrowings £m**	**Fixed rate borrowings £m**	**Weighted average interest rate %**	**Weighted average time for which rate is fixed years**
Sterling	**134.4**	**6.8**	**127.6**	**7.3**	**6.2**
US/Canadian dollar	**383.1**	**296.7**	**86.4**	**6.9**	**5.6**
Other currencies (net)	**92.8**	**92.8**	**–**		
	610.3	**396.3**	**214.0**	**7.1**	**5.9**

			Fixed rate borrowings		
2000	Gross borrowings £m	Floating rate borrowings £m	Fixed rate borrowings £m	Weighted average interest rate %	Weighted average time for which rate is fixed years
Sterling	143.4	9.4	134.0	7.3	7.2
US/Canadian dollar	344.0	–	344.0	7.4	6.6
Other currencies (net)	0.2	0.1	0.1	–	–
	487.6	9.5	478.1	7.4	6.8

The analysis of financial liabilities as at 31 December 2001 takes account of currency swaps which have the effect of increasing "Loan capital and borrowings" from £372m (note 18) to total financial liabilities of £610.3m as shown above. Offsetting this is the increase in cash, investments and other financial assets of £238.3m in the "Financial assets" table below. The increase relates to the sterling element of the currency swaps.

Floating rate borrowings incur interest based on relevant LIBOR equivalents.

19 FINANCIAL INSTRUMENTS CONTINUED

In addition to the above, the following meet the definition of financial liabilities:

– the Group's sterling denominated Convertible Preference shares of £227.2m (2000 – £227.3m) are fixed rate liabilities with a weighted average interest rate of 8.3% (2000 – 8.3%) and a weighted average period over which the rate is fixed of 5.6 years (2000 – 6.6 years).

– the Group's provisions of £27.9m (2000 – £33.8m) for vacant leasehold properties (note 21) are considered to be floating rate financial liabilities. This is because in establishing the provisions, the cash flows have been discounted using a discount rate which is re-appraised at each half-yearly reporting date to ensure it reflects current market assessments of the time value of money and the risks specific to the liability. £25.3m (2000 – £30.1m) of the balance is denominated in sterling and the remainder are US dollar denominated.

– £17.5m (2000 – £21.9m) of the Group's provisions on disposals (note 21). No interest is payable on these sterling denominated financial liabilities.

– £32.4m (2000 – £8.6m) of the Group's contract advances which are payable after more than one year. No interest is payable on these US dollar denominated financial liabilities.

Financial assets

Cash, investments and other financial assets	**2001 £m**	2000 £m
Sterling	**333.3**	124.9
US/Canadian dollar	**5.9**	26.3
Other currencies	**23.0**	16.5
	362.2	167.7

Floating rate cash earns interest based on relevant LIBID equivalents and investments earn interest according to the performance of the funds in which they are invested.

			Fixed rate assets		
2001 – instalment sale debtors and notes receivable after one year	**Total asset £m**	**Floating rate asset £m**	**Fixed rate asset £m**	**Weighted average interest rate %**	**Weighted average time for which rate is fixed years**
US dollar	**36.7**	**22.8**	**13.9**	**13.8**	**4.9**

			Fixed rate assets		
2000 – instalment sale debtors and notes receivable after one year	Total asset £m	Floating rate asset £m	Fixed rate asset £m	Weighted average interest rate %	Weighted average time for which rate is fixed years
US dollar	42.1	20.1	22.0	13.9	5.5

Floating rate instalment sale debtors and notes receivable after one year earn interest based on three and five year US treasury bills.

(b) Maturity of financial liabilities

The maturity of loan capital and borrowings is given in note 18 above. The Company's Convertible Preference shares of £227.2m (2000 – £227.3m) have a final redemption date of 2007.

For other financial liabilities, note 21 gives an indication of the nature of the underlying liabilities. The maturity profile of these liabilities is as follows:

	2001 £m	2000 £m
Within one year or on demand	**22.9**	25.5
Between one and two years	**13.5**	14.1
Between two and five years	**15.5**	0.8
Over five years	**25.9**	23.9
	77.8	64.3

19 FINANCIAL INSTRUMENTS CONTINUED

(c) Exchange risk management

After taking into account the effect of forward exchange contracts, there are no material net monetary assets/liabilities of Group companies denominated in currencies other than the relevant Group company's own functional currency.

The Group operates a prudent hedging policy relating to its cross currency business trading cash flows. Currency exposures are netted by currency and hedged forward for up to five years using forward foreign exchange contracts. At the year end at least 90% of anticipated core currency transaction exposures for the following 12 months had been hedged. The fair value of these hedges is set out in section (d) below.

(d) Fair values

The estimated fair values of the Group's financial assets and financial liabilities at 31 December 2001 and 2000 are set out below. The fair value of quoted borrowings is based on year end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end. The fair value of the Convertible Preference shares is calculated by reference to the open market value at year end.

Primary financial instruments held or issued to finance the Group's operations:

	Net carrying amount 2001 £m	**Fair value 2001 £m**	Net carrying amount 2000 £m	Fair value 2000 £m
Short term financial liabilities and current portion of long term borrowings	**(7.9)**	**(7.9)**	(42.6)	(43.0)
Long term borrowings	**(364.1)**	**(359.6)**	(445.0)	(415.4)
Cash at bank and liquid investments	**123.9**	**123.9**	167.7	167.7
Other financial assets	**36.7**	**36.7**	42.1	42.1
Preference shares	**(227.2)**	**(234.3)**	(227.3)	(230.2)
Other financial liabilities	**(77.8)**	**(77.8)**	(64.3)	(64.3)

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instruments based on valuations at 31 December 2001. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Financial derivative instruments

The estimated current value of the foreign exchange forward contracts and interest rate swaps entered into to hedge future transaction flows and on-balance sheet exposures is set out below based on quoted market prices.

	Book value 2001 £m	**Current value 2001 £m**	Book value 2000 £m	Current value 2000 £m
Interest rate swaps	**–**	**4.1**	–	–
Foreign exchange forward rate contracts	**–**	**(14.9)**	–	(7.4)
Foreign currency swaps	**8.1**	**8.1**	0.2	0.2

19 FINANCIAL INSTRUMENTS CONTINUED

(e) Hedges

As explained in the Operating and Financial Review on page 31, the Group's policy is to hedge the following exposures:

– Interest rate risk, using interest and currency swaps.

– Currency risk, using forward foreign currency contracts for foreign currency receipts and payments. Forward foreign currency contracts are also used for currency exposures on future years' forecasted sales.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

	Unrecognised		
	Gains £m	Losses £m	Total net gains (losses) £m
Gains and losses on hedges at 1 January 2001	–	(7.4)	(7.4)
Arising in previous years included in 2001 income	–	3.6	3.6
Gains and losses not included in 2001 income:			
Arising before 1 January 2001	–	(3.8)	(3.8)
Arising in 2001 on pre 1 January 2001 contracts	–	(8.6)	(8.6)
Arising in 2001 on 2001 contracts	4.5	(2.9)	1.6
Gains and losses on hedges at 31 December 2001	4.5	(15.3)	(10.8)
of which:			
Gains and losses expected to be included in 2002 income	4.5	(8.6)	(4.1)
Gains and losses expected to be included in 2003 income or later	–	(6.7)	(6.7)

There are no significant deferred gains or losses on hedge transactions.

(f) Financial instruments held for trading purposes

The Group does not trade in financial instruments.

(g) Credit risk

The counterparties to the forward exchange contracts and term deposits are major international financial institutions with strong credit ratings. The Group continually monitors its positions and the credit ratings of its counterparties.

20 OTHER CREDITORS

	Group		Company	
	2001 £m	2000 (as restated) £m	**2001 £m**	2000 £m
Amounts falling due within one year				
Payments received on account	**–**	4.1	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**371.5**	277.0
Trade creditors	**80.9**	86.4	**–**	–
UK corporation tax and overseas taxation	**16.6**	3.8	**2.4**	2.3
Other tax and social security	**10.8**	13.0	**–**	–
Other creditors	**39.4**	39.9	**–**	0.4
Accruals and deferred income	**104.9**	129.5	**4.2**	5.7
Accrued dividends	**7.8**	7.8	**7.8**	7.8
Proposed final dividend on Ordinary shares	**49.7**	47.3	**49.7**	47.3
Contract advances payable	**53.6**	35.9	**–**	–
	363.7	367.7	**435.6**	340.5
Amounts falling due after more than one year				
Other creditors	**7.5**	7.9	**–**	–
Accruals and deferred income	**4.9**	4.1	**–**	–
UK corporation tax and overseas taxation	**34.4**	28.0	**–**	–
Contract advances payable	**32.4**	8.6	**–**	–
	79.2	48.6	**–**	–

21 PROVISIONS FOR LIABILITIES AND CHARGES

	Acquisition provisions £m	Onerous contracts £m	Restructuring costs £m	Provisions on disposals £m	Other £m	Total £m
Group						
Balances at 31 December 2000	1.3	33.8	6.4	63.1	4.4	109.0
Currency translation adjustment	–	0.1	0.1	–	–	0.2
Profit and loss account						
– operating charge	–	0.7	1.5	–	3.5	5.7
– exceptional charge	–	–	9.7	–	–	9.7
– non-operating items	–	–		(2.0)	–	(2.0)
Net interest: release of discount	–	1.3	–	–	–	1.3
Utilised in the year	(1.3)	(8.0)	(8.6)	(18.2)	–	(36.1)
Balances at 31 December 2001	**–**	**27.9**	**9.1**	**42.9**	**7.9**	**87.8**

	Other £m
Company	
Balances at 31 December 2000	2.5
Utilised in the year	(0.3)
Balances at 31 December 2001	2.2

Onerous contracts

The Group is party to a number of leasehold property contracts. Provision has been made against those leases where the property is now vacant and the unavoidable costs under the lease exceed the economic benefit expected to be derived from potential sub-letting arrangements. The provision made in the year includes costs relating to properties which have become surplus to requirements. Further details on the maturity profile of this provision are provided in note 19.

Restructuring

The restructuring provisions held at the beginning of the year primarily related to the restructuring of the Deluxe Video business in the US which was announced in April 2000. Additional provisions have been made during the year as a result of a similar restructuring of the Deluxe Video business in Europe (see note 2 for further details). The restructuring provisions remaining at 31 December 2001 are expected to be utilised within the next two years.

21 PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

Provisions on disposals

This provision was established in 2000 following the disposal of Nightscene, Odeon Cinemas, Pinewood Studios, Tom Cobleigh and UK Holidays. Estimated costs include insurance claims, provision for potential warranty claims and working capital adjustments as described in the sales contracts. The working capital adjustment is expected to be utilised within the next financial year. The provision for insurance claims is expected to be utilised within three years whilst utilisation of the remaining provision for potential warranty claims is likely to vary over the next few years.

Other provisions

Other provisions include a provision relating to legal claims which have been made against the Group. Notwithstanding the intention of the Directors to defend vigorously these claims, provisions have been made in respect of the costs associated with defending them. It is not possible to determine the timing of these costs. Having obtained legal advice and on the basis of the information available, the Directors believe that the provision made represents their best estimate of the associated costs and that it is unlikely that these disputes will have a material effect on the Group's financial position.

A provision has also been made in respect of the Rank Group 2000 Long Term Incentive Plan which provides for executive Directors and selected executives to be given restricted awards over existing Ordinary shares with a market value of up to one times base salary. These awards will vest in 2003 and 2004, subject to satisfaction of applicable performance conditions.

22 DEFERRED TAXATION

	Provided		Not recognised	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Group				
Capital allowances	**–**	–	**(19.6)**	(21.2)
Other timing differences	**–**	–	**0.8**	1.0
	–	–	**(18.8)**	(20.2)

The Group also has an unrecognised deferred US tax asset amounting to approximately £100m (2000 – £120m), mainly represented by US tax losses brought forward.

The above figures exclude taxation payable in the event of the accumulated reserves of certain overseas subsidiary and associated undertakings being distributed as there is no present intention to distribute them.

23 CAPITAL AND RESERVES

	2001			2000		
	Authorised	**Issued and fully paid**		Authorised	Issued and fully paid	
	Nominal value £m	**Number m**	**Nominal value £m**	Nominal value £m	Number m	Nominal value £m
US$ Cumulative Preference shares	**3**	**–**	**–**	3	–	–
Convertible Cumulative Redeemable Preference shares of 20 pence each	**60**	**227.2**	**45.4**	60	227.3	45.4
Ordinary shares of 10 pence each	**120**	**591.9**	**59.2**	120	591.8	59.2
	183		**104.6**	183		104.6

Under the Share Savings Schemes operated by the Company employees hold options to subscribe for up to 6,278,287 (2000 – 4,833,709) Ordinary shares at prices between 141p and 349.46p per share exercisable by 30 November 2006.

Under the Executive Share Option Schemes operated by the Company, Directors and executives hold options to subscribe for up to 13,073,455 (2000 – 15,054,740) Ordinary shares at prices ranging between 155.25p and 475.75p per share exercisable over the period up to 20 September 2011.

Options granted pursuant to Share Savings Schemes are issued at a discount to the prevailing market price. Under the provisions of UITF 17 (Revised) no provision is required for the difference between market price and exercise price.

23 CAPITAL AND RESERVES CONTINUED

Options granted under the Share Savings Schemes are exercisable normally within a period of six months after the third or fifth anniversary of the SAYE contract. Options granted under the Executive Share Option Schemes are exercisable normally within a period commencing on the third anniversary and ending on the tenth anniversary of the date of grant.

On 7 June 2001, 38,948 Ordinary shares were issued by virtue of the conversion of 143,553 Convertible Preference shares ("Preference shares"); a further 22,375 Ordinary shares were issued during the year on the exercise of options.

Non-equity shareholders' funds relate entirely to the Preference shares. These shares carry an entitlement to a dividend at the rate of 8.25p (net) per share per annum. They are convertible in any of the years up to 2003 into Ordinary shares of 10p each at a rate equivalent to 27.132 Ordinary shares for every 100 Preference shares and may be redeemed at £1 per share at any time after 30 June 2003 at the option of the Company and, in any event, will be redeemed at £1 per share on 31 July 2007. Holders of the Preference shares have one vote for every five shares held but only on a resolution for the winding-up of the Company or on a resolution affecting the rights attached to the shares or if the Preference dividend has remained unpaid for six months. Holders of Preference shares have the right on a winding-up to receive in priority to any other class of shares the sum of £1 per share together with any arrears of dividend.

	£m
Share premium account	
Balances at 31 December 2000 and 31 December 2001	**8.5**

	£m
Capital redemption reserve	
Balances at 31 December 2000 and 31 December 2001	**24.8**

	Company and its subsidiaries			
Other reserves	Preference redemption £m	Other £m	Associated undertakings £m	Group £m
Group				
Balances at 31 December 2000	9.2	410.9	(1.7)	418.4
Currency translation adjustments	–	(5.1)	–	(5.1)
Surplus on profit and loss account for the year	–	30.8	–	30.8
Provision for redemption premium	2.2	–	–	2.2
Balances at 31 December 2001	**11.4**	**436.6**	**(1.7)**	**446.3**

Of the £5.1m loss on other net currency translation adjustments, a loss of £2.6m arises from the translation of foreign currency borrowings less deposits. The total cumulative goodwill eliminated against reserves at 31 December 2001 amounted to £1,024.1m (2000 – £1,011.3m).

Other reserves	Preference redemption £m	Other £m	Total £m
Company			
Balances at 31 December 2000	9.2	1,207.8	1,217.0
Deficit on profit and loss account for the year	–	(95.4)	(95.4)
Provision for redemption premium	2.2	–	2.2
Balances at 31 December 2001	**11.4**	**1,112.4**	**1,123.8**

24 ANALYSIS OF MINORITY INTERESTS

	Equity total £m
Balances at 31 December 2000	15.9
Currency translation adjustments	0.4
Minority interest in the profit on ordinary activities after tax	1.9
Distributions to minority interests	(3.0)
Balances at 31 December 2001	**15.2**

25 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2001 £m	2000 £m
Operating profit	**172.2**	219.3
Exceptional charges	**37.5**	43.5
Cash payments in respect of exceptional costs and provisions	**(27.4)**	(49.6)
Depreciation and amortisation	**81.1**	134.0
(Increase) decrease in stocks	**(3.1)**	24.7
(Increase) decrease in debtors	**(15.3)**	55.7
Increase (decrease) in creditors	**27.8**	(74.0)
Other items	**(6.4)**	4.4
Net cash inflow from operating activities	**266.4**	358.0

26 RECONCILIATION TO NET DEBT

	2001 £m	2000 £m
(Decrease) increase in cash in the year	**(43.8)**	72.4
Decrease in debt and lease financing	**117.3**	848.6
Movement in liquid resources (a)	**(5.4)**	(1.1)
Decrease in net debt from cash flows	**68.1**	919.9
New finance leases	**(1.4)**	(2.0)
Gain on repayment of fixed rate debt	**7.7**	–
Currency translation adjustments	**(2.6)**	(75.9)
Decrease in net debt in year	**71.8**	842.0
Net debt at 1 January	**(319.9)**	(1,161.9)
Net debt at 31 December	**(248.1)**	(319.9)
Cash, deposits and current asset investments (note 17)	**123.9**	167.7
Loan capital and borrowings (note 18)	**(372.0)**	(487.6)
Net debt at 31 December	**(248.1)**	(319.9)

(a) The movement in liquid resources consisted of purchases of deposits and investments of £6.3m (2000 – £14.7m) and sales of £11.7m (2000 – £15.8m).

27 ANALYSIS OF NET DEBT

	31 December 2000 £m	Cash flow £m	Other non-cash changes £m	Currency translation adjustments £m	**31 December 2001 £m**
Cash in hand and at bank	156.0	(46.6)	–	8.2	**117.6**
Overdrafts	(9.3)	2.8	–	–	**(6.5)**
		(43.8)			**111.1**
Debt due after one year	(444.1)	84.6	7.7	(10.9)	**(362.7)**
Debt due within one year	(32.2)	31.9	–	0.1	**(0.2)**
Finance leases	(2.0)	0.8	(1.4)	–	**(2.6)**
		117.3			**(365.5)**
Liquid resources	11.7	(5.4)	–	–	**6.3**
Total	(319.9)	68.1	6.3	(2.6)	**(248.1)**

Liquid resources comprise current asset investments which, as described in note 17, represent amounts readily convertible into cash.

Other non-cash changes comprise the gain on repayment of fixed rate debt and the inception of new finance leases.

28 DIRECTORS

(a) Directors' interests

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's executive share option scheme and share savings scheme, and conditional awards under the long term incentive plan, are detailed in the Remuneration Report. No options to subscribe for Ordinary shares of the Company were granted to or exercised by Directors, or lapsed, in the year ended 31 December 2001.

(b) Total emoluments of the Directors of The Rank Group Plc

	2001 £000	2000 £000
Fees	**110**	157
Base salaries, allowances and taxable benefits	**1,087**	1,314
Bonuses	**541**	878
Salary supplements	**54**	48
Aggregate emoluments	**1,792**	2,397
Pension contributions – defined contributions	**238**	283
Compensation for loss of office – Jerry Fowden (including contribution to unapproved retirement benefit scheme – £166,000)	**751**	–
Total emoluments	**2,781**	2,680
(c) Emoluments of current Chairman	**107**	288
(d) Emoluments of highest paid Director*	**1,103**	1,111

(e) Company policy on the remuneration of Directors and details of the remuneration of each Director are set out in the Remuneration Report on pages 34 to 37.

*Including Company contributions to defined contribution pension arrangements.

29 EMPLOYEES

Employee costs	2001 £m	2000 £m
Wages and salaries	**303.3**	387.2
Social security costs	**25.7**	33.8
Other pension costs	**7.9**	12.8
	336.9	433.8

Average number of employees by geographical area	2001	2000
UK	**10,560**	10,574
North America	**8,190**	8,778
Rest of the World	**2,205**	1,789
Continuing operations	**20,955**	21,141
Discontinued operations	**–**	15,916
Average in year	**20,955**	37,057

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) below are those required by that standard. FRS 17 "Retirement Benefits" was issued in November 2000 but will not require full implementation for the Group and Company until the year ended 31 December 2003. Prior to this, phased transitional disclosures are required from 31 December 2001. The disclosures required are presented in (b) below.

(a) Provision for pension and similar obligations
UK The Group has two pension schemes for UK employees, both of which are contracted out of the State Earnings Related Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from Group assets. The accounts of both schemes for the year ended 5 April 2001 have been reported upon by their auditors without qualification.

The Rank Pension Plan is a defined benefit scheme with pensions fixed by reference to final pay and length of service. The market value of the funds' assets at 5 April 2001 was £589.9m (2000 – £640.5m).

Formal actuarial valuations of the Plan are carried out triennially by an independent actuary, William M. Mercer Ltd. The most recent valuation has an effective date of 5 April 2001 and has been used to determine the pension charge for the year to 31 December 2001. The main actuarial assumptions adopted were:

Valuation method	attained age
Rate of return on investments	
– pre retirement	6.25% p.a
– post retirement	5.25% p.a
Rate of increase of pensionable remuneration	3.75% p.a
Rate of discretionary pension increases	1.50%
Rate of pensions in payment increases*	2.50% p.a

*Pensions in payment are entitled to increases in line with price inflation subject to a maximum of 5% per annum.

In prior years, the pension scheme has been valued under the projected unit method. Following the closure of the scheme to new entrants, the attained age valuation method has been adopted in 2001.

Assets were taken at their market value. The value of the assets was sufficient to cover 109% of the accrued benefits allowing for expected future increases in earnings.

The pension charge for the year to 31 December 2001 was £1.9m (2000 – £7.9m). The charge was determined after spreading the expensing surplus of £36.5m as at 1 January 2001 over the average remaining service lives of the active members of the Plan.

At 31 December 2001 there was a prepayment in debtors of £11.0m (2000 – £9.6m) resulting from the difference between pension costs charged in the accounts and the amounts funded to date.

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and the emerging investment performance. The market value of its assets at 5 April 2001 was £37.8m (2000 – £33.5m). Group contributions to this scheme in the year to 31 December 2001 totalled £0.9m (2000 – £0.8m).

US The Group operates defined contribution schemes in the US. Group contributions to these schemes totalled £3.3m (2000 – £3.0m).

Other countries Group contributions to schemes for employees in other countries totalled £Nil (2000 – £Nil).

29 EMPLOYEES CONTINUED

(b) FRS 17 "Retirement Benefits"
Financial Reporting Standard 17 "Retirement Benefits" ('FRS 17') will change fundamentally the calculation and reporting of the cost of retirement benefits. The disclosures below relate to all retirement benefit plans in the UK.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 5 April 2001 and updated by William M. Mercer Ltd, to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2001. Scheme assets are stated at their market value at 31 December 2001.

The main actuarial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method	projected unit
Discount rate	6.00% p.a
Inflation rate	2.50% p.a
Salary increases	3.75% p.a
Rate of increase of deferred pensions	2.50% p.a
Rate of increase of pensions in payment increases (5% LPI increases)	2.50% p.a

The assets in the scheme and the expected rate of return as at 31 December 2001 were:

	Long term rate of return expected at 31 December 2001 % pa	Value at 31 December 2001 £m
Equities	**7.5**	**361**
Government bonds	**5.0**	**106**
Non-government bonds	**6.0**	**72**
Insurance policies	**6.0**	**15**
Cash	**4.0**	**11**
Total market value of assets		**565**
Actuarial value of defined benefit liabilities		**(529)**
Recoverable surplus in the scheme		**36**
Related deferred tax liability		**(11)**
Net pension asset		**25**

If FRS 17 had been adopted in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2001 would have been as follows:

	2001 Group £m
Net assets	
Net assets excluding pension asset	**588**
Pension asset	**25**
Net assets including pension asset	**613**

	£m
Reserves	
Profit and loss reserve excluding pension assets	**426**
Pension reserve	**25**
Profit and loss reserve	**451**

The Rank Pension Plan is closed to new entrants. Under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

Notes to the Accounts continued

30 CONTINGENT LIABILITIES

	2001 £m	2000 £m
Group		
Guarantees by the Company and by subsidiary undertakings, and uncalled liability in respect of partly paid shares	**50.6**	42.5

The Group is involved in a dispute with Serena Holdings Limited over the purchase consideration of an acquisition which has been referred to an expert for determination. The dispute centres upon the parties' contentions in relation to the accounts and the profits of the businesses based upon which an additional purchase consideration may be payable. The Directors are strongly resisting the payment of any further sum. At the present time the outcome to the Group cannot be determined and the potential liability cannot be quantified. However, it is the opinion of the Directors that it is unlikely that the outcome of this dispute will have a material effect on the Group's financial position.

Subsidiary undertakings are involved in class action suits in the US. These actions are being vigorously contested and the Directors believe that none of these actions will result in a material adverse effect on the financial condition of the Group. Additional information required to be disclosed by FRS 12, "Provisions, Contingent Liabilities and Contingent Assets", is not disclosed on the grounds that it can be expected to prejudice the outcome of these matters.

	2001 £m	2000 £m
Company		
Guarantees of advances to subsidiary undertakings and uncalled liabilities in respect of partly paid shares	**807.6**	908.8

No security has been given in respect of any contingent liability.

31 COMMITMENTS

Future capital expenditure

At 31 December 2001 commitments for capital expenditure amounted to £18.3m (2000 – £17.7m) for the Group and £Nil (2000 – £Nil) for the Company.

Group operating lease commitments

At 31 December 2001 commitments to make payments under operating leases in the following 12 months were:

	Land and buildings		Plant and machinery	
	2001 £m	2000 £m	2001 £m	2000 £m
Leases expiring in one year	**3.3**	3.4	**0.1**	0.1
Leases expiring in two to five years	**15.3**	16.8	**8.8**	1.7
Leases expiring in more than five years	**32.2**	29.9	**–**	0.2
	50.8	50.1	**8.9**	2.0

32 RELATED PARTY TRANSACTIONS

During the year the Group traded with its joint venture investment, BL Rank Properties Ltd ("BLRP"). £10.7m of rental payments to BLRP were made in the year and in an arms length transaction, the Group purchased a property from BLRP for £2.0m.

The Group recharges the Rank Group UK Pension Schemes with the costs of administration and independent pension advisers borne by the Group. The total amount recharged in the year ended 31 December 2001 was £1.5m (2000 – £1.8m).

Principal Subsidiary Undertakings

The Rank Group Plc owns directly or indirectly 100% of the ordinary share capital and voting rights of the following companies. The companies are incorporated in Great Britain unless otherwise indicated after the company name. The principal operations are carried out in the country of registration.

Gaming	Principal activities
Grosvenor Casinos Limited	London and provincial casinos
Mecca Bingo Limited	Social and bingo clubs
Rank Leisure Machine Services Limited	Amusement machine hire and sales
Rank Leisure Division Limited	Owns the Group's investments in Gaming division companies
Hard Rock	
Hard Rock Cafe International (USA) Inc. (US)	Operates and franchises Hard Rock Cafes
Hard Rock International Limited	Operates and franchises Hard Rock Cafes
Hard Rock Canada Inc.	Operates and franchises Hard Rock Cafes
Deluxe	
Deluxe Laboratories Limited	Film processing laboratory
Deluxe Laboratories Inc. (US)	Film processing laboratory
Deluxe Toronto Limited (Canada)	Film processing laboratory
Deluxe Video Services Inc. (US)	Video duplication and distribution
Holding & other companies	
Rank America Inc. (US)	Owns the Group's investments in the US
Rank Group Finance Plc*	Funding operations for the Group
Rank Leisure Holdings Plc*	Owns the Group's investments in the UK operating subsidiary undertakings, Rank Overseas Holdings Limited and BL Rank Properties Ltd
Rank Overseas Holdings Limited	Owns the Group's investment in Rank Holdings (Netherlands) BV and Rank America Inc.

*Directly held by the Company.

Five Year Review

YEAR ENDED 31 DECEMBER	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Turnover					
Current operations	**1,367**	1,404	1,330	1,334	1,301
Former operations	**–**	389	711	723	711
	1,367	1,793	2,041	2,057	2,012
Operating profit before exceptional items					
Current operations	**210**	203	196	178	183
Former operations	**–**	60	111	96	119
	210	263	307	274	302
Exceptional items charged against operating profit	**(38)**	(44)	(98)	(99)	(9)
Non-operating items (including share of associates)	**9**	(450)	32	(207)	(43)
Universal Studios Escape before exceptional items	**–**	(11)	(2)	22	20
Universal Studios Escape exceptional items	**–**	(1)	(46)	(24)	(9)
Other associates and joint ventures	**3**	(11)	2	1	–
Dividends receivable from Rank Xerox	**–**	–	–	–	20
Interest (net)	**(24)**	(87)	(87)	(50)	(48)
Profit (loss) before tax	**160**	(341)	108	(83)	233
Tax	**(32)**	24	(38)	(55)	(60)
Minority interests	**(2)**	(3)	(2)	(3)	(3)
Preference dividends and appropriations	**(21)**	(21)	(21)	(21)	(20)
Earnings (loss)	**105**	(341)	47	(162)	150
Earnings (loss) per Ordinary share	**17.8p**	(49.1)p	6.1p	(21.2)p	18.4p
Earnings per Ordinary share before exceptional items	**22.5p**	17.3p	19.9p	22.0p	25.6p
Total Dividend per Ordinary share	**12.6p**	12.0p	12.0p	18.5p	18.0p

YEAR ENDED 31 DECEMBER	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Group funds employed					
Fixed assets	**733**	780	1,938	1,872	1,863
Investments	**65**	56	390	348	239
Other assets (net)	**49**	55	32	78	398
Total funds employed at year end	**847**	891	2,360	2,298	2,500
Financed by					
Ordinary share capital and reserves	**360**	333	964	1,011	1,245
Preference share capital including premium	**224**	222	220	218	216
Minority interests	**15**	16	14	12	27
	599	571	1,198	1,241	1,488
Net debt	**248**	320	1,162	1,057	1,012
	847	891	2,360	2,298	2,500
Average number of employees (000's)	**21.0**	37.1	43.1	45.6	43.7

Shareholder Information

A wide range of shareholder information is available in the Investor Relations area of the Rank Group website: www.rank.com.

Ordinary shares
The total number of Ordinary shares in issue as at 31 December 2001 was 591,893,975 shares which were held by a total of 31,964 shareholders.

Convertible Preference shares
The total number of Convertible Preference shares in issue as at 31 December 2001 was 227,172,711 shares which were held by a total of 14,549 shareholders.

American Depositary Receipts (ADRs)
The Company's Ordinary shares are traded on NASDAQ in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol "RANKY". Each American Depositary Share represents two Ordinary shares. The total number of American Depositary Shares in issue as at 31 December 2001 was 2,654,835 (representing 5,309,670 Ordinary shares) which were held by a total of 2,749 ADR holders.

J P Morgan Chase Bank is the depositary bank. All enquiries regarding ADR holder accounts and payment of dividends should be directed to J P Morgan ADR Service Center, PO Box 43013, Providence, RI 02940-3013 (Tel: 1-800-428-4237 (toll-free in the US) or +1-781-575-4328 (from outside the US)). Information can also be obtained online by visiting www.adr.com.

Share price information
The latest information on the Rank Ordinary share price is available in the Investor Relations area of www.rank.com. Information is also available in the UK through BBC1 Ceefax page 230, BBC2 Ceefax page 222 and Sky Digital Text page 516.

Capital gains tax
For the purpose of calculating UK capital gains tax on a disposal of Ordinary shares in the Company held since 31 March 1982 (including shares held in the predecessor company, The Rank Organisation Plc), the price of the Company's shares at that date was 190p per share. This price should be adjusted for the effects of the rights issue in January 1990, the enhanced share alternative in November 1993, the sub-division and consolidation of shares in March 1994 and the enhanced scrip dividend in March 1998.

Share dealing service
Hoare Govett Limited has established a low-cost share dealing service which enables investors to buy or sell certificated shareholdings in the Company in a simple, economic manner. Basic commission is 1%, with a minimum charge of £10. Transactions are executed and settled by Pershing Securities Limited. Forms can be obtained from Hoare Govett, 250 Bishopsgate, London EC2M 4AA (Tel: 020 7678 8300).

Form 20-F
The Company is subject to the regulations of the Securities and Exchange Commission ("SEC") in the US as they apply to foreign companies. The Company will file its annual report on Form 20-F with the SEC. Copies of the Directors' Report and Accounts and Form 20-F can be obtained in the US by contacting J P Morgan Chase Bank at the address quoted above.

Registrar
All enquiries relating to Ordinary and Convertible Preference shareholders, dividends and changes of address should be addressed to the Company's Registrar, (quoting reference number 1235), Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (Tel: 0870 600 3953). There is a text phone available on 0870 600 3950 for shareholders with hearing difficulties.

www.shareview.co.uk
The Shareview Portfolio service from our Registrar gives you more control of your Rank shares and other investments including:

- direct access to data held for you on the share register including recent share movements and dividend details;
- a recent valuation of your portfolio;
- a range of information and practical help for shareholders.

It is easy and free to set up a portfolio – you just need the shareholder reference printed on your proxy form or dividend stationery. Visit the website for more details: www.shareview.co.uk

Payment of dividends
Shareholders whose dividends are not currently paid to mandated accounts may wish to consider this method of payment, which has a number of advantages: dividends are paid direct into the shareholder's nominated account, cleared funds are provided on the payment date, and the relevant tax voucher is sent to the shareholder's registered address.

If you would like future dividends paid in this way, please contact the Registrar for a dividend mandate form. A mandate form will also be attached to the warrant for the next dividend.

ShareGift
Shareholders with a small number of shares, the value of which makes it uneconomical to sell, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. Share transfer forms are available from the Registrars.

Further information about ShareGift is available at www.sharegift.org or by writing to:
ShareGift
The Orr Mackintosh Foundation
24 Grosvenor Gardens
London SW1W 0DH
Tel: 020 7337 0501

For further information please contact:
Charles Cormick, Company Secretary
Kate Ellis-Jones, Director of Investor Relations
The Rank Group Plc
6 Connaught Place
London W2 2EZ
www.rank.com
Tel: 020 7706 1111

Summary Notice of Annual General Meeting

Summary of business to be transacted at the 2002 annual general meeting
The full text of the notice of the meeting, together with explanatory notes, is set out in a separate document which is enclosed with this Report and Accounts.

The annual general meeting of the Company will be held at the Royal Garden Hotel, 2-24 Kensington High Street, London W8 4PT at 11.30am on Thursday 25 April 2002.

Business to be transacted at the annual general meeting

1 To receive the Report and Accounts for the year ended 31 December 2001.

2 To declare a final dividend.

3 To re-appoint Alun Cathcart as Director.

4 To re-appoint Oliver Stocken as Director.

5 To re-appoint Mike Smith as Director.

6 To re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to agree their fee.

7 To approve the Rank Group 2002 Share Incentive Plan.

8 To approve the Rank Group 2002 Executive Share Option Scheme.

9 To authorise the Directors to allot Ordinary shares.

10 To disapply pre-emption rights.

11 To authorise the Company to make market purchases of its Ordinary shares.

12 To authorise the Company to make market purchases of its Convertible Preference shares.

13 To authorise the Directors to declare scrip dividends.

Proxy forms for use in connection with the business to be transacted at the annual general meeting are enclosed with this Report and Accounts.

2002 Financial Calendar

31 January
Dividend payment on Convertible Preference shares

25 April
Annual general meeting

10 May
Final dividend payment on Ordinary shares

31 July
Dividend payment on Convertible Preference shares

6 September
Interim results announcement

18 October
Interim dividend payment on Ordinary shares

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